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Ideas on Liberty

JANUARY 1975

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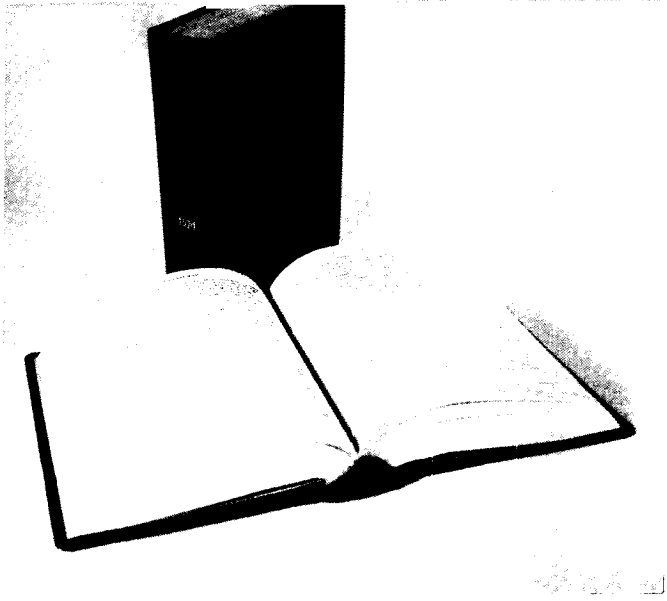

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VOL. 25, NO. 1 • JANUARY 1975

The Gold Standard: A Standard for Freedom — Paul Stevens — 3
Government fiat money means government control over the choices and actions of individuals.

Those Things Called Money — Leonard E. Read — 13
Why not leave decisions about money to the fantastic wisdom of the market?

Gold Is Legal, But . . . — Robert G. Anderson — 17
The right to own gold may be an opening against governmental control of money.

Two-Digit Inflation — Hans F. Sennholz — 23
An analysis of the disastrous consequences of a monetary policy based solely on political considerations.

The Cost of Statism — Brian Summers — 35
The costs of intervention are real, though they cannot be measured.

Justice in the Market — David Kelley — 38
Freedom and justice stand together, jointly opposed to collectivism.

The Continuing Efforts to Destroy Property Rights — Bernard H. Siegan — 46
The owner still knows best how to use his property.

Significance of Services — Hiring and Firing — W. A. Paton — 48
Concerning the economic importance of personal services and the pricing of them.

Book Reviews: — 58
"The Virginia Experiment" by Alf J. Mapp, Jr.
"Economics and Marx—the Fraudulent Antagonists" by Howard Brandenburg
"The Incredible Bread Machine" by various authors
"Will the Real Young America Please Stand Up?" by Mark Evans

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PAUL STEVENS

The Gold Standard:

A Standard For Freedom

AT ONE TIME the case for the gold standard was practically self-evident – undisputed by most economists and appreciated by both laymen and professionals. Today, however, the case for gold is buried under decades of propaganda, misconceptions, and myths. It has been only recently that the case for the gold standard has begun to surface from under the Policy Makers' anti-gold debris. Consequently, gold is once again gaining the attention and interest it so rightly deserves.

Today's free-market advocates of the gold standard differ from past advocates. For example, free-market advocates do not exclude silver or other commodities from their concept of a gold standard. Indeed, they do not even insist that gold *must* be money. The case for the gold standard is actually the case for market-originated commodity money, and the case against government-regulated fiat money. It is simply an extension of the case for free markets which respect the rights of man, and the case against controlled markets which violate the rights of man.

To be concerned with the gold standard is to be concerned with a free economy, regulated by the values and choices of men, rather than a controlled economy in which the values and choices of men are regulated by government. This concern for man's freedom to express values and exercise choices is derived from the deeper concern for justice and for man's right to property. The man concerned with justice does not aim to force others to use gold as money. Rather, he insists that government has no right to prevent him and other men from using

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gold as money if they choose. The man concerned with property rights does not urge government to legislate pro-gold policies in order to arbitrarily increase the value, popularity, or status of gold. Rather, he insists that government stop inflating, since this arbitrarily decreases the value of his money claims to property.

Antagonists of the gold standard claim that it is impractical. But the gold standard is, in fact, the most practical monetary system yet conceived by man. However, the gold standard's primary virtue does not lie in its practicality: it lies in its *morality*. Those concerned about such things as freedom, justice, the preservation of property rights and purchasing power, would do well to consider the *moral* case for the gold standard, for, once understood, it is the individual's best defense against government confiscation of property through inflation.

The fact that prevents government from indulging in inflationary schemes under the gold standard can be best summed up in a phrase: *governments can't print gold*. But to understand the implications of this statement, and the virtues of having gold as money, it is first necessary to understand what money is — and what money is *not*.

What Money Is . . .

A man on a desert island has no need for money. He produces the goods he needs to survive, and consumes all he produces. Similarly, a primitive society has no need for money. The kinds of goods produced are extremely limited, and if individuals desire to exchange their goods with one another, they can do so through direct exchange, i.e., barter. But under a division of labor economy where men specialize in production and where there is a variety of goods produced, desired, and traded, there is a very definite need for money. For how else could Mr. Jones in Florida sell his oranges to men throughout the world and then buy Mr. Smith's best-selling novel, unless there existed some medium of exchange acceptable to all parties.

Money originates from men's desire for *indirect* exchange. And more, since indirect exchange usually occurs between strangers like Smith and Jones, money must be an object which is mutually valued. Thus, money is that commodity which serves as a medium of exchange by virtue of its high degree of marketability.

The task of discovering *which* commodity will be most valued by and most acceptable to men as a medium of exchange can only be accomplished through a *market*

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process; for it is only through the market that men's *values* and *choices* are properly reflected. The verdict of the market has reflected three general requirements for any lasting medium of exchange: that money should be generally acceptable to most men; that it should be practical to use; and that it should be relatively stable in value. If these requirements are satisfied, the result is a money of *trust*.

Trust is the lifeblood of money, and money is the lifeblood of any economy based on the indirect exchange of goods and services. A money of trust serves to facilitate exchange among men, and in doing so, breeds a healthy and growing economy. But if men should ever begin to mistrust money, the market will immediately reflect this loss of confidence. Then money will begin to lose stability, lose its acceptability, and will soon become impractical to use in exchange.

Mistrusted money is the antithesis of the lifeblood of an economy. It's a kind of "bad blood" circulating between men throughout the economy, breeding confusion and suspicion. The fact that men's mistrust of money will result in monetary crises and collapse, underscores the need for a money that never contradicts men's values, a money that at all times properly reflects men's values, i.e., a money based on, and constantly exposed to, individual choices – which means a free-market-originated commodity money.

Why Leave to Market

When one considers the complex process that must take place before men can discover which commodity money constantly reflects their changing values and choices, one can understand why it is only through a free market process that money can properly evolve as a medium of trust. And one may also understand why no man, group of men, or government, has the right to dictate what money or its value should be. This decision must be a *market* decision if it is to be a *lasting* decision.

Throughout history, almost every conceivable commodity has been used as a medium of exchange. Through the years of economic development and through trial and error, those commodities least suited to serve as money were eliminated, while those commodities best suited survived as forms of money. After centuries of exchange between men, the commodity that emerged as the most valued, the most practical, the most trusted money among men, was gold.

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What gives rise to men's trust in gold? First, men value gold as *money* because men value gold as a *commodity*. Gold at any time can be *converted* to its commodity role if its monetary role should ever be questioned. Second, since gold is relatively scarce and precious to men, it has stability of value. Therefore, it can be trusted to serve as a relatively stable medium of exchange. And since most individuals desire to save part of what they produce in some monetary form, gold's stability of value provides them with a reliable monetary method of accumulating and storing wealth.

What else gives rise to men's trust in gold? Gold is easily marketable, which means it is acceptable to men in exchanges of all kinds. Gold is also trusted because it is practical: it's durable, so it won't perish or rot; it's small in bulk, so it is easily transportable. It's a metal, which means it can be used in different forms, such as bars or coins; and, since gold does not evaporate, it will lose neither quantity nor quality if or when men should decide to melt their coins into bullion or melt their bullion for use in production.

There is one more thing that gives rise to men's trust in gold: the knowledge that gold cannot be counterfeited; the conviction that the money supply cannot be artificially and arbitrarily increased by those who would aim to confiscate wealth rather than produce it; the knowledge that money (the *claim* to production and effort) will itself represent production and effort. In short, men's trust in gold carries the conviction that the monetary system freely adopted by men is based, not on whim and decree, but on integrity and productivity.

These are some of the reasons why men have trusted gold as a medium of exchange through history – and why today's Policy Makers damn its existence.

. . . And What Money Is Not

Money is not paper. Paper notes evolve from the desire for a convenient substitute for commodity money. The paper notes that circulate as money today were once *money substitutes* (receipts for gold), defined by and convertible into a specific amount of gold. Paper notes did not and cannot become a money of trust without first representing a commodity of trust.

Consider the reaction of free men – men who, understanding and respecting the meaning of property rights, are suddenly and for the first time offered in place of gold, non-convertible paper notes. These notes would be meaningless to such men. No man who

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had just come from harvesting a field of wheat would even consider trading his wheat for scrap paper.

There are only two ways in which men will accept paper notes without commodity convertibility: if they are *forced* to do so, or if they are *conned* into doing so. Americans are now legally *forced* to accept government's non-convertible paper notes – but only because they have been conned into believing that commodity money is "old-fashioned" and "impractical" and that paper notes are indicative of a "modern and sophisticated economy."

Nothing could be further from the truth. Non-convertible paper "money" is *fiat money* that derives its value, *not* from its value as a commodity, *not* from its value as a useful medium of exchange according to the requirements of a medium of exchange, but from the *decree* of government. Fiat money is a throwback to the days of kings and the mentality of dictators. It is not a money evolved from the values and choices of free men in free markets, but a money created through the coercion of government.

Is commodity money old-fashioned and impractical, as today's Policy Makers contend it is? Consider the following facts: Over the last several decades, the exchange ratios (the prices) of various commodities have not varied much in value relative to each other. For example, the value of eggs to milk or milk to bread would be at approximately the same ratios today as they were years ago.

Why Prices Rise

But if it is true that the exchange ratios of commodities are relatively the same today as they were in the past, why then have prices (the exchange ratios of dollars to goods) soared over the years? The reason is that the value of the *paper* money, with which government forces everyone to deal, has fallen yearly relative to all commodities. Clearly, if a commodity (theoretically, almost *any* commodity) had been used as a medium of exchange over the past decades instead of government's fiat money, prices would have remained relatively stable. It is important to realize that it is not commodities that are *rising* in value, but fiat money that is *falling* in value.

Since 1933, when the U.S. severed the dollar-commodity relationship by abandoning what was left of the gold standard, the value of the dollar has depreciated by over two-thirds in relation to other commodities. This could never occur under a commodity standard – only under a government-

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imposed fiat standard. Had the U.S. returned to a dollar based on and convertible into gold instead of severing the dollar-gold relationship, the supply of dollars over the years would have been limited to, or checked by, the supply of gold. Therefore, the value of the dollar today would have been equal to the value of gold *in relation to other commodities*. Instead, the U.S. decided to print dollars whenever "needed" and to pretend that the dollar was "as good as gold" by legally fixing its value. The pretense couldn't last, and today the dollar is worth approximately 25 per cent of its value in terms of gold in 1933.

Paper notes that are not representative of and convertible into a commodity are not money and have never satisfied the requirements of money for long. They are notes of circulating debt which men are forced to accept, so that governments can continuously pursue their policies of inflation.

The Nature of Inflation

Inflation is the fraudulent increase in the supply of money substitutes and credit. It is a policy which allows government to artificially create and spend more money than it is able to collect in taxes or borrow from its citizens. Government is the *cause* of inflation – the *effect* is higher prices. Consider each dollar as a claim to some tangible good. If the claims are increased, the value of each claim goes down because there are more dollars seeking goods. This bids prices up.

But inflation is *not* simply rising prices. In fact, inflation may exist even when prices remain the same or *decrease*. How is this possible? If the production of goods and services increases more than the artificial increase in paper claims, prices will drop – but not by as much as they would have, had there been *no* artificial increase in paper claims. Thus, in *real* terms, the value of paper claims is effectively *reduced* even though in *relative* terms the value of these claims may increase.

Historically, and in relatively free market economies, there are only two ways in which a general across-the-board increase in prices can occur: through a dramatic increase in commodity money (such as new gold discoveries) or through a fraudulent increase of money substitutes by banks and governments. The former type of general price increase rarely occurs and is perfectly natural. The latter is both unnatural and immoral.

In the case of new gold production, those who have *produced* the new commodity money will have *earned* the right to exchange their

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product for the products of others. All other non-money producers may have to pay higher prices for goods, as the supply of gold increases, but the higher prices are compensated for by having more money to spend. *Who* receives the "new" money will depend on *individual productivity* – and this is as it should be, for it is the justice of the market that the acquisition and distribution of wealth is based upon productivity rather than decree.

But, given a fiat standard where government sanctions and sponsors an *artificial* increase in paper money or credit, the increase in purchasing power for some men can only be obtained at the expense of other men. Given a fiat standard, income distribution is the result of chance, caprice, or government favors and loans. When government doles out its fiat money, these notes dilute the value of all other outstanding money claims. Those who receive the fiat money first, benefit from spending their money before prices rise. But as the fiat money is spent, prices are higher for all other consumers. Thus, the difference between a *real* increase in the money supply (i.e., commodity money) and an *artificial* increase (i.e., in paper *claims*) is the difference between production and theft.

Clearly, inflation is a moral issue. However prices respond, it is immoral that some man, agency, or government is legally permitted to obtain wealth at the involuntary expense of other men. The major challenge in the sphere of monetary relations today is how to abolish the coercive power of government to control the supply and regulate the value of money, and how to return this function to the market where it properly belongs.

The Fiat Standard at Work

Under a fiat standard, government gains control of the banking system and thus, indirectly, of the nation's money supply. It can artificially and arbitrarily create money and furnish credit. Government paper notes are not based on or convertible into gold, or any other tangible commodity; man's production and labor are not the sole claim to other men's production and labor: the supply and value of money are determined by government.

Under the American version of the fiat standard, the banking system and the nation's money supply are controlled and regulated for the most part by a twelve-man Board of Governors which is empowered to make policy decisions for the majority of the nation's banks. Thus, America's banking

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system is not a free and private banking system – it is a quasi-governmental banking system, known as the Federal Reserve System.

It should be clear that the Federal Reserve System's power to create claims against individuals' property is immoral. But neither the Federal Reserve System nor the fiat standard is ever defended on moral grounds; they are defended on practical grounds. Once inspected, however, these grounds turn out to be about as solid as quicksand. The primary justification given for a fiat standard is that credit can be extended far more rapidly and extensively. This, it is claimed, is the fiat standard's major virtue. It is, in fact, a major vice.

The greatest economic threat under a fiat standard is that the Federal Reserve System will supply heavy doses of money and credit to the loan market in an attempt to reduce interest rates and "stimulate" the economy. This attempt, while temporarily stimulating economic activity, leads to *mal-investment,* as businessmen falsely anticipate greater profits. A "boom" results, but since the "boom" is artificially created, the prosperity is temporary and, for the most part, illusory. Government has not furnished more goods; it has not increased the nation's prosperity; it has simply increased the money supply – which leads men to believe they are richer. The fact is, however, they only have more paper claims to goods. This cannot enrich anyone; it can only lead to future inflation, i.e., a reduction of the value of real claims to wealth.

Illusion of Prosperity

Thus, increases of money and credit provide only an illusion of prosperity, for with increased money and credit come increased costs for producer goods and increased wage costs. Higher wages then lead to *over-consumption,* as consumers, too, are enticed by the illusion of prosperity. But over-consumption results in higher prices which reduce the consumer's standard of living. Since the "boom" was inflation-inspired, producers and consumers are not better off – they are worse off. Mal-investment and over-consumption are mistakes – errors in judgment – caused by government's attempt to con its citizens into believing that profit opportunities are better than they really are.

When the credit expansion that stimulated the "boom" ends, the mistakes that were made cannot be perpetuated. These mistakes must be liquidated: consumers buy less and begin paying off their unrealistic accumulation of debts.

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Producers liquidate inventories. Interest rates rise, and unemployment increases as the economy struggles to readjust. The severity of the readjustment depends on the degree and length of government's prior credit expansion and the policies implemented to cope with the adverse effects. Given continual injections of money and credit in the inane attempt to continue the "boom" and prevent a necessary recession, hyperinflation will result. Hyperinflation must lead to monetary chaos as well as economic disaster, i.e., to depression. A major depression is not a necessary result of the fiat standard, but inflation and the "boom-bust cycle" are.

The whole purpose of fiat money is to allow government to spend more money than it can raise in direct taxes from its citizens. As a result, the American fiat standard has worked more often as a means of redistributing wealth than a means of stimulating the economy. Government, instead of furnishing money to the loan market in the attempt to continuously reduce interest rates, has created money to finance the "welfare" state. When government's fiat money enters the economy in the form of checks for expenditures, rather than through the loan market, the sequence of events and the effects are a little different.

Men usually hold their money as savings, but as prices continue to rise over the years of government deficit spending, men realize that the pieces of paper they hold are continuously and progressively depreciating in value – that inflation is becoming a way of life. Once men begin to lose confidence in government's fiat money, it's only a matter of time before the years of simple inflation burst into hyperinflation and monetary collapse.

Thus, whether government tries to stimulate the economy or to finance programs that it cannot afford, the fiat standard is self-defeating and counter-productive. The consequences of America's fiat standard have been mild by historical standards: the Great Depression of the '30's, an endless series of booms and busts since then, and a depreciation of the dollar by about 75 percent. So much for the "practicality" of the fiat standard!

The Meaning of the Gold Standard

In a free society, no man, group of men, or government has the "right" to infringe upon the rights of others. This means that within a free society, the initiation of force is banned. All goals must be attained through persuasion and voluntary cooperation, and no goal may be achieved at

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the expense of any man – not for the "good" of another man, not for the "good" of the state, and not for the "good" of society. A system of voluntary exchange is a system of laissez-faire capitalism. Under capitalism, man's rights are supreme. They are defended by government – not violated by government.

A gold standard is an integral part of a free society; a fiat standard is an integral part of a controlled society. A gold standard cannot exist without the consent of individuals; a fiat standard cannot exist without the initiated force of government. A gold standard is based on voluntary exchange, the recognition of men's values, and respect for private property; a fiat standard is based on compulsory "exchange," the denial of men's values, and the insidious confiscation of private property.

Wealth is production, and gold is the equivalent of wealth produced. Because neither wealth nor gold can be created out of nothing, neither wealth nor gold are possible without men of intelligence, men of ability, and men of productivity. Fiat is force and is the equivalent of wealth confiscated. Both fiat and force are the tools of the envious and the cowardly. Where a gold standard is welcomed by the best of men, the fiat standard is welcomed by the worst of men. Where the gold standard demands the *earned*, the fiat standard grants the *unearned*. Where a gold standard evolves from individual choice, a fiat standard evolves from government edict. Where a gold standard necessitates only that men be left free to act, to choose, and to trade, a fiat standard invites government to control, to regulate, and to dictate men's choices, actions, and the terms of trade.

Gold limits the government's power to spend more money than it receives in taxes, and in doing so, gold limits the government's arbitrary power over the economy; gold checks artificial money and credit expansion; it prevents artificial "booms" which lead to very real "busts"; gold protects individuals from economically unsound government programs; and it protects citizens from the inflationary confiscation of private property. Not only is the gold standard the most practical monetary system yet discovered, it is a standard consistent with freedom – yet it is the gold standard that today's Policy Makers either ignore or denounce.

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LEONARD E. READ

Those Things Called Money

What this country needs is a good five-cent nickel.
— Ed Wynn

NEARLY EVERYONE at this moment of money madness will agree with Wynn's statement – humorous but sound. H. B. Bohn remarked: "Of money, wit, and virtue, believe one-fourth of what you hear." As to wit and virtue, Bohn may be right. But I doubt that as much as a fourth of what we hear about money is worth serious consideration, for most of the pronouncements stem from a premise that it is a function of government to issue money and regulate the value thereof. The premise seems wrong to me. I believe that if money is to be useful to traders as a medium of exchange then the decisions as to what shall serve as money must be worked out by traders in the market, *voluntarily*, rather than by governmental edict.

If you are further interested in what I believe, reflect for a moment on the various commodities and other things that have been used for money: wampum, sea shells, salt, fur, dried fish, ivory, cigarettes, silk stockings, gold and other metals – the list is long. These are some of the things called money, but note that of those listed thus far, all are commodities that, at the time, were in common use in trade – so common that they were useful as a medium of exchange.

But things of a different category, "non-commodities," also are called money – and thereby hangs our tale. German marks are things; in 1923 five billion of these things wouldn't buy a loaf of bread. Paper dollars also are

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things called money – legal tender – government money which the law requires a creditor to accept in payment of a debt. Or to put it another way, government money, if created out of thin air by edict, is in no sense a scarce and valuable resource useful to traders but is rather a means of taxing or taking scarce resources from the market without offering anything useful in exchange. Such "money" may be a clever form of taxation, but it is far worse than useless as a medium of exchange.

Not Worth a Continental?

Am I arguing that government money never has been "worth a Continental"? Not necessarily. If a government issues paper receipts that are fully backed by some valuable and widely acceptable item of trade – fully redeemable upon demand by the bearer – such receipts may serve very well as a medium of exchange. But, of course, there's no reason on earth why the issuance of warehouse receipts should be a governmental function. Let anyone do it who has a warehouse, and printing press, and a sufficient stock of gold or silver or whatever else the receipt calls for. And let government intervene only to see that the receipts are not fraudulent – counterfeit.

I am well aware that some governments of some nations at some times have been in charge of monetary policy with quite satisfactory results, when the policy was to mint standardized coins and issue receipts fully redeemable in some well-known and highly marketable commodity. But there is no reason to suppose that the managers of a governmental monopoly will long function in competitive fashion if the monopoly can be exploited to gain additional political power. And it doesn't take a genius to figure how to exploit a money monopoly: just print bogus warehouse receipts and declare them to be legal tender; then pass laws to penalize suppliers of goods or services who refuse to accept the bogus receipts at face value. Finally, this can be pushed to the point of issuing receipts based not on the *fullness* of the warehouse but on its *emptiness* instead – the use of the national debt as the backing for the paper money.

What would be the grossest fraud if an individual tried it has become the common practice of governments – all quite legal because it is a governmental monopoly. And the result is a runaway inflation that disrupts business activities and hinders rather than facilitates trade. This is why governments cannot be trusted with power to determine what traders should use as a medium of exchange. Let the traders choose.

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Leave the decisions about money to the market. Limit the government to its proper function of policing the market and punishing traders who cheat or rob or willfully injure other peaceful persons.

There Is No Blueprint

When I say that decisions about money should be left to the market, I do not presume to know precisely what those decisions might be. Nor do I find much agreement among monetary experts as to what those decisions ought to be. Would traders insist on pure gold as money? Would they use checking accounts or American Express or credit cards? Would they patronize banks and insist on 100 per cent reserves? I don't know, and I'm not terribly concerned that no one else seems to know precisely. What I am concerned about is that men be free to choose whatever best seems to serve their own respective purposes. And I believe that from such freedom to succeed or fail in open competition in the market will come the most nearly perfect and tamper-proof monetary policy humanly possible.

How much understanding of money is required of us? No more understanding than any one of us has about how to make a jet airplane.

To support this point, let me repeat for the umpteenth time that no single person knows how to make an ordinary wooden lead pencil, explained in a brevity entitled, "I, Pencil."[1] Yet, the year that piece was written, we made in the U.S.A. 1,600,000,000 wooden pencils. How come? How explain a know-how that exists in no one of us, even remotely? My answer: It is the overall luminosity, the wisdom in the free market. When millions of people are free to act creatively as they choose, an unimaginable wisdom is the consequence. To assert that it is a billion times greater than exists in any discrete individual would be a gross understatement.

Keep in mind that any single person's understanding of how money could be made to serve us honestly and efficiently is precisely as impossible as understanding how to make a pencil!

It is appropriate at this point to ask a question to which no one has a correct answer: What would be the medium-of-exchange situation were it left not to dictocratic control but to the fantastic wisdom of the market? To hazard a guess would be to feign a clairvoyance beyond human experience. Guessing would be as farfetched as expecting Socrates to have foreseen and described the makings of

[1] See "I, Pencil." Copy on request.

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present-day air travel, electric lighting, the human voice delivered around the earth in one-seventh of a second, my dictaphone, or a thousand and one other phenomena. I call these "phenomena" because no one understands or can describe the genesis of these countless economic blessings even after their existence! The wisdom that accounts for them is not in you or me; it derives from the overall luminosity. *Why then should we not entrust money—the medium of exchange — to this same wisdom rather than to the coercive power of those now in public office?*

Yes, what this country needs is a good five-cent nickel. The way is clear: Relegate organized force — government — to the defense of life and property, invoking a common justice, keeping the peace. And leave all creative activities, including the medium of exchange — money — to the wisdom of the market. Do this or our country will end up with a five-cent thousand-dollar bill.

Difficult? Yes! Impossible? Who knows! One thing for certain: Turning money affairs over to the free market is no more an idealistic dream than reducing government to its proper role. And, another thing for certain: Standing for that which seems politically expedient or feasible gains nothing; such techniques are doomed to failure. On the other hand, every boon to mankind has had its birth in the pursuit and upholding of what's right. Humanity has been graced with many boons, every one of which was first thought to be impossible. Bear in mind that righteousness, as well as faith, works miracles.

IDEAS ON LIBERTY

The Sources of Invention

IF PAST EXPERIENCE is anything to judge by, crucial discoveries may spring up at practically any point at any time.

As contrasted with the ideal ways of organizing effort in other fields, what is needed for maximizing the flow of ideas is plenty of overlapping, healthy duplication of efforts, lots of the so-called wastes of competition, and all the vigorous untidiness so foreign to the planners who like to be sure of the future.

JOHN JEWKES, from *Lloyds Bank Review*, January 1958

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Gold Is Legal, BUT...

ROBERT G. ANDERSON

TODAY, as was true 42 years ago, the American people once again have freedom to own as much gold as they choose. Devotees of the free market have viewed this development with pleasure, for they have had little cause to rejoice during these many years of steady erosion of individual liberty. Socialistic governmental intervention has steadily expanded since the denial of our right to own gold.

The restoration of legal gold ownership by individuals is certainly a reversal of this ominous trend of government omnipotence. It has been heralded as a sign of change in the course of statism. Upon closer scrutiny, however, such optimism may be questioned, for there is a marked distinction between conditions then and now.

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What has been restored, and what was lost 42 years ago, are not the same. Prior to April 5, 1933, gold was money. Individuals used gold daily as their medium of exchange for goods or services at the rate of $20.67 an ounce of gold. It is true that the payment was rarely made in gold bullion, but the gold certificates or gold coins in use represented bullion. Gold was legal tender, along with the coins and currency of the Treasury and Federal Reserve Banks. Upon demand, anyone could surrender his paper money and receive gold bullion.

The legalization of gold ownership has not restored it as our medium of exchange—money. The statist legal tender laws (in conjunction with Gresham's Law) continue to force the fiat paper money of government upon us. The use of gold as money is still forbidden. Any attempt to use or

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demand gold payment for goods or services remains illegal. The absolute governmental monopoly of fiat money continues to be protected by law against competition from gold.

Calling in the Gold

The evolution of this government monopoly of money began with a Proclamation of President Roosevelt on April 5, 1933; under enabling legislation passed a month earlier, the destruction of gold as money commenced:

> All persons are hereby required to deliver on or before May 1, 1933 . . . all gold coin, gold bullion, and gold certificates now owned by them or coming into their ownership on or before April 28, 1933. . . . Until otherwise ordered any person becoming the owner of any gold coin, gold bullion, or gold certificates after April 28, 1933, shall, within three days after receipt thereof, deliver the same . . . upon receipt of gold coin, gold bullion, or gold certificates delivered to it. . . . The Federal Reserve Bank or member bank will pay therefor an equivalent amount of any other form of coin or currency coined or issued under the laws of the United States.

This order called for the surrender of private gold holdings. Individuals, many believing it was merely a temporary action arising out of the "national emergency" of the great depression, obediently exchanged their gold for paper money.

The surrender of gold coins for paper money is understandable, inasmuch as gold could no longer be used as a medium of exchange. Individuals needed money to transact their exchanges. Since the exchange value of money at the time was greater than the commodity value of the gold content in the coins, people generally did not resist exchanging their gold for the remaining medium of exchange — paper money.

But the government wanted to make sure of its money monopoly position. It wanted all the gold, and in furtherance of that end, President Roosevelt issued another Proclamation on August 28, 1933:

> After 30 days from the date of this order no person shall hold in his possession or retain any interest, legal or equitable, in any gold coin, gold bullion, or gold certificates situated in the United States and owned by any person subject to the jurisdiction of the United States, except under license therefor issued pursuant to this Executive order. . . .

While nominal holdings of gold were exempted from these edicts, any subsequent use of or holding of gold was under the direct control of government. Gold owner-

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ship was now illegal except under Treasury license and scrutiny.

It only remained to establish penalties for any violation to these edicts. This came in short order as a part of the Gold Reserve Act, January 30, 1934:

> Any gold withheld, acquired, transported, melted or treated, imported, exported, or earmarked or held in custody, in violation of this Act . . . shall be forfeited to the United States . . . and in addition any person failing to comply with the provisions of this Act or of any such regulations or licenses, shall be subject to a penalty equal to twice the value of the gold in respect of which such failure occurred.

To all intent and purpose, the medium of exchange was now an irredeemable paper currency. Certain legal relationships prevailed between gold and money, but convertibility by United States citizens was ended. The only remaining convertibility was with foreign holders of our dollars. In time, even these provisions would disappear.

The Gold Reserve Act of 1934 transferred all the gold in the United States into the hands of the Treasury. The Federal Reserve Banks were issued "gold certificates" by the Treasury in exchange for their gold. It was cynically observed that "These are not certificates that you can get gold. These are certificates that gold has been taken away from you."[1]

Gold Repriced at $35

The abandonment of the gold exchange standard was now complete. With the bulk of the nation's gold stock in the possession of government, and its monopoly over our money supply established, it didn't take long for the government to exploit its position. The very day after the passage of this legislation, January 31, 1934, President Roosevelt reduced the gold content of the dollar by 40.94 per cent. The new price of gold was established at $35.00 per ounce in place of the old price of $20.67 per ounce.

Overnight the face value of the gold held by the Treasury and Federal Reserve Banks increased by almost three billion dollars. This devaluation directly repudiated forty per cent of the dollar claims to gold held by foreigners. The government wasted no time in getting started its engine of inflation. The American people were about to learn that only the discretion of the government money monopolists remained to limit

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1 B. M. Anderson, *Economics and the Public Welfare* (Princeton, N. J.: D. Van Nostrand Company, Inc., 1959), pp. 348-49.

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the inflation of our money supply.

It is a matter of historical record that not much discretion ever existed. The money supply has increased more than seventeen fold since our abandonment of the gold exchange standard. The magnitude of this monetary expansion has reduced the purchasing power of today's paper dollar to about one quarter of its value in 1933.

During this era of continued inflation the government was severing any remaining legal ties to gold. The final tie was cut on August 15, 1971, when the "gold window" was closed to foreigners. After that date, not even foreign central banks could convert their dollar holdings to gold. The American dollar was nothing but irredeemable fiat money.

Still a Money Monopoly

The legalization of gold ownership today does not restore gold as a medium of exchange. As a matter of fact, the willingness of the state to once again permit gold ownership is precisely because the state no longer views gold as a threat to its money monopoly.

Gold can now be owned as a nonmonetary commodity. Any effort, however, by private citizens to re-introduce gold money as a medium of exchange will be promptly challenged by the government as illegal competition against its monopoly of paper money. Gold ownership was not legalized in order to restore a sound money, but instead, because government no longer considers gold important.

Overconfidence, however, even by a monopolist, can lead to a miscalculation. So, any relaxation of power by the State, any restoration of freedom to the citizenry, should be acclaimed with joy and fully exploited.

The restoration of the legal right to own gold is the action of an overconfident money monopolist. While the use of gold as a medium of exchange is still prohibited, the fact that we may own gold provides a means to protect our wealth from the ravages of inflation.

A Measure of Stability

If the State continues on its inflationary path, cash holdings in paper money will be reduced, or even eliminated in some cases. Holding gold will be more advantageous. The expansion of the quantity of the government's paper money, which erodes its purchasing power, cannot touch gold. On the contrary, the price of gold may be expected to rise in direct reflection of the declining purchasing power of the paper dollar.

This development will become

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more and more visible. The advantage of holding gold rather than paper money will become obvious to all. Conversion from gold to paper money, in order to complete an exchange, and then converting back to gold from paper will become commonplace. While the process introduces an additional complication in our exchanges, buyers and sellers in the market will readily discover that this additional "complication" is a small burden to pay in order to offset the inflationary impact of government money.

This trading practice is widespread in those countries throughout the world that permit private ownership of gold while still suffering from chronic inflation. With lengthy histories of paper inflation as their lesson, people in foreign lands hold gold, not paper, in their secret hiding places. Gold's immunity from government generated inflation has made it a prized possession in these inflationary times.

Our exchange economy does not have to follow such dismal examples. Though not intended as such, the first step toward a return to sound money has been taken. As individuals begin to register their preference for gold over paper in the market, the next major step by our government must be considered: permitting gold as a medium of exchange.[2]

Leave It to the Market

Past intrusion by government into monetary affairs has only led to monetary destruction. While the law can guard money from fraud, it cannot create money. Money evolves from the market and the need for a means to facilitate our exchanges.

If individuals are to have their full freedom to make exchanges, they must also be free to determine the media in which their exchanges shall be made. Throughout history, gold has been the commodity chosen by free men to accomplish this end.

The legalization of gold ownership will allow the market to demonstrate that gold is the preferred media for making trades. Once again it will be seen that sound money can only originate within the market.

The final restoration of a sound money will require a major shift in political thinking. The futility of continued inflation must first be recognized. As the failure of "political money" becomes increasingly obvious to voters, government hopefully will abandon its

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[2] See Hans F. Sennholz, *Inflation, or Gold Standard?*, "Return to the Gold Standard" (Lansing, Mich.: Bramble Minibooks, 1973).

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monopoly power over the money system. In response to the public clamor for a sound money, gold will finally prevail.

The soundness of gold in contrast to the deterioration of paper money will be clear to all who care to see it. All that is required by government hereafter is the removal of legal barriers to free use of gold in trade. The competitive forces of the market will shortly re-establish it as the "market's money."

So, from the now restored right to own gold, we may hope eventually to reassert our right to use it as money. The welfare of all of us is dependent on such a result.

The survival of a free market is dependent on the preservation of a sound money. If sound money is to be restored and our freedom preserved, government must surrender its monopoly over money and allow gold to once again serve buyers and sellers in the market as our medium of exchange.

Gold is legal, *but* it is not yet money.

IDEAS ON LIBERTY

Economic Sophisms

EVER SINCE the advent of representative government placed the ultimate power to direct the administration of public affairs in the hands of the people, the primary instrument by which the few have managed to plunder the many has been the sophistry that persuades the victims that they are being robbed for their own benefit. The public has been despoiled of a great part of its wealth and has been induced to give up more and more of its freedom of choice because it is unable to detect the error in the delusive sophisms by which protectionist demagogues, national socialists and proponents of government planning exploit its gullibility and its ignorance of economics.

ARTHUR GODDARD, from his preface to the English-language edition of *Economic Sophisms* by Frederic Bastiat

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Two-Digit Inflation

HANS F. SENNHOLZ

IT HAS BEEN SAID that affliction is a school of virtue, that it corrects levity and interrupts the confidence of sinning. If this should be true, then the rampant inflation which is our most serious public affliction should offer important lessons in virtue and hamper the confidence of economic sinning. But such lessons cannot be learned as long as ignorance deprives man of some basic understanding of his affliction and of the remedies there are.

For hundreds of years the issue of excessive quantities of paper currency by government was called inflation. Rising goods prices were deemed to result inevitably from such issues and were thought to offer an indication or measure of the degree of monetary inflation. But in the semantic confusion of our age we are calling the rise in prices inflation. And the issuer of the money, spendthrift government, is called "inflation fighter."

How delightful and profitable for officials and politicians! They can spend and spend without much worry about budget deficits, which are covered by the issue of new currency. The new terminology implicitly lays the blame for rising prices on anyone who dares to raise his prices, on "greedy" businessmen and workers, speculators and foreigners. But the confusion brings havoc and poverty to countless victims whose incomes are greatly reduced and savings destroyed. It impoverishes the "middle class" with its savings for the rainy day and retirement.

Inflation is sometimes described as a tax on the money holders. In reality, it is a terrible instrument

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for the redistribution of wealth. It is true, the government is probably its greatest profiteer as its tax revenues are boosted by the built-in progression in higher income brackets and through the depreciation of governmental debt. But in addition, the inflation shifts wealth from those classes of society who are unable, or do not know how to defend themselves from the monetary destruction, to entrepreneurs and owners of material means of production. It strengthens the position of some businessmen while it lowers the real wages of most working men and professionals. It decimates or destroys altogether the middle class of investors who own securities or hold claims to life insurance and pension payments. And finally, it gives birth to a new middle class of traders, speculators, and small profiteers of the monetary depreciation.

Massive Redistribution

The magnitude of the present redistributive process in the U.S. can only be surmised. Let us estimate the total volume of public and private debt at $2.7 trillion (Federal $475 billion, state and local government $200 billion, corporations $1150 billion, farms $80 billion, residential mortgages $400 billion, commercial mortgages $75 billion, other commercial debt $55 billion, financial debt $65 billion, consumer debt $195 billion). A ten per cent rate of dollar depreciation transfers $270 billion a year from the creditors to the debtors. A fifteen per cent rate, which better reflects economic reality, would transfer $405 billion per year. Now, disposable personal income in the U.S. is estimated at $931 billion (cf. Federal Reserve Bulletin, July 1974, p. 57), which makes the inflation transfer income and loss nearly 44 per cent of annual incomes from productive services. In short, present inflation as a powerful instrument of wealth redistribution is responsible for a stream of income and loss equal to almost one half of our productive efforts.

The redistribution process is also a massive debt liquidation process in real terms. Surely, the nominal magnitude of dollar debt is rising, but in terms of real things and real values debt is being liquidated at the depreciation rate. A ten per cent rate of currency depreciation reduces real debt by ten per cent; total monetary destruction destroys debt totally. It transfers the ownership of real wealth from the people who have lent money to the people who have borrowed the money.

Such are the profits and losses from only one source: the currency depreciation that gives to

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debtors that which it takes from creditors. In addition, several other inflation factors inflict huge losses on nearly all classes of society.

Rampant inflation destroys the capital markets which are the very well-spring of productive enterprise. Having suffered staggering losses through depreciation, few lenders are able to grant new loans to finance business expansion or modernization, or merely current operation. And even if they had the funds, they are reluctant to enter monetary contracts for any length of time. Business capital, especially long-term loan capital, becomes very scarce, which precipitates economic stagnation and recession. Similarly, businessmen begin to hedge for survival, investing their working capital in inventory and capital goods. Funds that used to serve consumers become fixed investments in capital goods that may escape the monetary depreciation. Economic output, especially for consumers, thus tends to decline, which may raise goods prices even further.

A great deal of "unproductive" labor is needed to cope with the complexities of calculation and dealing with rapidly changing prices. Cost accounting faces the insoluble task of calculating business costs with a yardstick that is shrinking continually. Managerial decisions become very difficult and enterprise efficiency is greatly hampered, which raises business costs and reduces output.

Finally, the greatest danger to economic production and well-being looms in sudden government intervention. Having recklessly depreciated the currency at two-digit rates, the same government may want to legislate and regulate the economic actions of the people. It may suddenly impose price, wage, and rent controls, restrict imports or exports, levy new taxes, or commit some other folly, all in order to treat some symptoms of its own policies.

Real Wages Fall

Two-digit inflation tends to reduce the real wages of nearly all classes of employees, from unskilled laborers to chief executives. While many goods prices can be adjusted quickly to the monetary depreciation, wage and salary contracts are written for longer periods of time, often for a year or even longer. During this time employees suffer a continuous erosion of real incomes and standards of living. It is true, the reduction in real wages, which are business costs, tends to raise the demand for labor, which generally causes unemployment to decline. Also, profitable enterprises that

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continue to compete aggressively for labor tend to review wages and salaries more often than before, for instance, every six months instead of waiting two years. Others boost merit pay substantially to avoid rising costs through higher turnover.

The general decline in real wages tends to breed widespread labor unrest. Individual productivity may fall substantially which raises business costs, reduces output and thus boosts prices even further. Labor unions react by demanding large increases in nominal wages, and sometimes may succeed in restoring real wages at least temporarily, until the inflation again reduces real wages, followed by further union demands, and so on. Ugly strikes multiply, costing millions in work hours, inflicting business losses and raising costs, and thus generating ever greater pressures for higher prices. In desperation many millions of heretofore unorganized employees are led to joining unions or forming collective strike organizations in order to avert the loss of real wages. Labor unions seem to thrive on monetary depreciation and the economic conflict it generates.

Rampant inflation also affords growing popularity and public support of a system of wages based on a cost-of-living index, commonly called indexation. All wages may be fixed according to an index number calculated by a government bureau. Of course, even such a system cannot be expected to protect labor from the disastrous influences of monetary depreciation as the index is calculated on the basis of past prices that differ from goods prices when wages are paid and spent. General indexation of wages also works havoc upon those industries that suffer severely from the inflation, such as consumers' goods industries and service industries. They may contract further, reducing output and service, which again raises prices.

The Poor Suffer

The poorest classes of society living closest to the subsistence minimum are hurt most severely by monetary depreciation. Especially those poor who live on fixed incomes, such as pensions and annuities or welfare gratuities that are slow to adjust to the rise in prices, may actually experience deprivation and hunger. Others may be forced to supplement their shrinking purchasing power by seeking employment if this should be possible. Thus, some unskilled labor that used to prefer public support over working for a living will return to productive employment. Others may resort to vice

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and crime to bolster their falling incomes.

Real incomes of civil servants, military personnel, and salaried employees of commerce and industry may fall even faster than those of the poor. True, they may not immediately face deprivation and hunger, but they may be greatly reduced and impoverished by the rise in goods prices that tends to exceed their occasional salary adjustments.

The situation may even be worse with professional men, such as physicians and dentists, attorneys, artists, writers, and professors at private institutions of learning. Rampant inflation may reduce them to a life of penury and misery as public demand for their professional services tends to decline significantly with the general impoverishment of the populace. After all, demand for their services is much more elastic than that for food, for instance, which explains why less money is spent on professional services in spite of ever larger government expenditures on health, education and welfare.

The suffering of this professional class is compounded by the destruction of its savings through inflation. In general, the middle class generates the financial capital that affords productivity and expansion to commerce and industry. It holds a large share of national wealth in the form of financial capital, such as corporate stock and debentures, demand and time deposits, life insurance, pension funds, and the like, all of which suffer serious losses from the depreciation of the currency. In fact, rampant inflation expropriates the wealth and substance of this middle class.

Dangerous Stock Markets

The stock market offers great opportunities during periods of rampant inflation. Industrial shares especially are subject to extreme fluctuations in price, which astute traders will use to their advantage. This does not mean that the market offers investors a reliable hedge against inflation. On the contrary, the real value of shares tends to decline, which inflicts considerable depreciation losses on share owners. But alert traders can profit from the many chills and fevers that attack the market.

The greatest factor of change that virtually shapes the price trends is the monetary policy of government. Large bursts of money creation and credit expansion are followed by sudden jerks of restraint or even stability, which trigger symptoms of economic recession and decline. Or, the government may suddenly impose

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price, wage and rent controls, or resort to other means of intervention that temporarily reverse the trend. To ignore the ever-changing signals of monetary policy and other government intervention can be very costly.

In terms of purchasing power, stock prices tend to decline because most business profits are more apparent than real. The sums set aside for maintenance of equipment, called depreciation, are mostly insufficient. Replacement costs soar while depreciation that is allowable under the tax laws is based on past costs and therefore insufficient to cover present costs. In fact, many profits are fictitious, which causes companies to pay income taxes although there is no income, and declare dividends while working at a loss. Similarly, the inflation profits on inventory are mostly fictitious as replacement costs may equal or even exceed the proceeds of a sale that was believed to be profitable.

During periods of rampant inflation it is very difficult, even for experts, to ascertain the profitability of an enterprise. To interpret profit statements and balance sheets becomes nearly impossible, which affords companies an opportunity to hide their earnings or losses and show only what they want to show. For an investor to appraise the value of his corporate shares becomes an insoluble task.

Occasionally the monetary authorities may slow down or even abstain from creating more currency and credit. Or their rate of expansion may fall short of that expected by businessmen. In each case the fevers of inflation are interspersed with the chills of recession and depression, which send stock and bond prices tumbling until, once again, the Federal Government comes to the rescue with record budget deficits and new bursts of currency expansion. After all, this is the basic recipe of the "new economics" that has shaped Federal economic policy since the 1930's and has given us "inflationary recessions," i.e., simultaneous inflation and recession.

No Sure Hedge in Fluctuating Stocks

When one or several of the stated factors depress stock prices the public may realize that even the purchase of industrial securities affords no safe means of investing their savings. Suffering heavy losses, they withdraw from the market and invest their remaining funds in goods or money market instruments, especially Treasury obligations. The public is the "middle class" of some 30 million stockholders and 50 mil-

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lion investors who indirectly own corporate securities through investment companies, pension funds, life insurance companies, credit unions, and so on. They suffer heavy losses when they finally liquidate their stock investments for depreciated currency. It has been estimated that since 1965 most American stock investors have lost at least 40 per cent of their savings through price declines and another 40 per cent through currency depreciation.

From time to time the fever of inflation may cause stock prices to soar as the monetary authorities refuel the money markets in order to avoid depression and unemployment. The investor may rejoice about his long-awaited profits. Deluded by the apparently high prices he may be induced to sell his securities. Unfortunately he may not be aware of the real losses which the monetary depreciation is inflicting on him. Again he loses severely in purchasing power and real wealth, and yet may have to pay an income tax on the nominal profits he earned.

The speculator who observes the merciless drubbing of most investors has learned to distinguish "apparent profits" from "real" ones. He trades with the trends of the market, jumps from industry to industry, always seeking action and quick profits. But above all, basically he is a buyer of the securities that are liquidated by the middle-class investor. The monetary depreciation which greatly reduces their real price makes it easier to acquire securities. Thus, we can observe not only a gradual shift of corporate wealth from the old class of capitalists and middle-class investors, but also a concentration of industrial shares in fewer and fewer hands. A small new middle class of traders and speculators replaces the old middle class of investors, and huge new fortunes are created from the losses suffered by investors and capitalists.

The depreciation of public debt and the fall of industrial securities in terms of both price and purchasing power strike a devastating blow not only at millions of small investors but also at great capitalists whose wealth is invested in marketable securities. Wealthy stock brokers, bankers, financiers, rentiers, heirs, or businessmen in retirement who before the inflation owned large fortunes, that is the "old rich," suffer serious losses. Old fortunes vanish, and eminent family names fade away. Similarly, the wealth of charitable institutions, religious societies, scientific or literary foundations, and endowed colleges and universities, is destroyed by inflation.

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Losses in Real Estate

While inflation inflicts havoc on monetary investments, it has varied effects on property of land and buildings. Agriculture, on the whole, survives a period of feverish inflation rather well. Farmers generally profit from the increase in prices of agricultural goods and from the depreciation of farm mortgages. Even small and middle-size operators whose debt may render their independence rather precarious in normal times can hold their own during rampant inflation. After all, they are the producers and owners of real goods the prices of which rise, yielding ever higher incomes, while inflation reduces the real burden of their debt.

Ownership of residential housing offers a much poorer defense against inflation than is commonly believed. Although mortgage debt is greatly reduced by the inflation, which affords some inflation profits to owners, the market price of private residences and commercial property usually limps behind the rate of monetary depreciation. During rampant inflation interest rates soar and mortgage loans are hard to find, which makes it rather difficult to finance a purchase. Thus, effective demand may be reduced which tends to depress real estate prices. This is especially true for middle class housing whose owners feel impoverished and in need of retrenchment. It may not be true for beautiful mansions and large estates that continue to sell at high prices to a new class of *nouveaux riches.*

But even when real estate appreciates in price and the owner gains from a sale, on which he must pay a capital gains tax, he may lose in terms of purchasing power. Deluded by apparently high prices, many owners may be induced to sell their homes, to realize only much later, perhaps, that they made a poor bargain.

The situation is most dangerous and precarious for apartment house owners. They are vulnerable not only to the imponderables of a feverish capital market, to the impoverishment of their working and middle-class tenants, and to the price delusion mentioned above, but also to the ever-present danger of rent control. A desperate government may do desperate things. Drawing wrong conclusions from given facts and fighting symptoms rather than causes, it may by force arrest prices, wages and rents. But rent controls imposed for prolonged periods of inflation reduce real rents significantly, which causes house prices to fall accordingly. With maintenance expenses rising, real rents falling and losses

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looming, many owners may be forced to sell out – at very low prices. And again, the class of old investors makes room for a new class of speculators who at bargain prices are buying a great many houses.

But even without controls rental property may be depressed because working and middle class demand for housing is shrinking as real income is declining. Or, many apartment house owners may not realize the significance of the monetary depreciation, and therefore are slow to adjust their rents. Or, they may be reluctant to raise rents for charitable reasons. In each case the yield from such property tends to decline, and therefore also real estate prices, which may inflict serious losses on its owners.

The Nouveaux Riches

Huge private fortunes and imposing concentrations of capital are formed from inflationary redistribution. But in contrast to the formation of capital under stable monetary conditions, when fortunes are built through productive changes and improvements, through technological inventions and efficient methods of production, the wealth derived from inflation is "redistributive," from one individual to another. The new millionaires are not generally creators of new industries or reorganizers of production. They are mostly clever speculators with excellent understanding of monetary policy and its effects on stock prices, exchange rates and high finance. They may even be industrialists who are turning away from the hard work of business management to the more rewarding dealings in securities, commodities and foreign exchange. But above all, they understand the phenomenon of inflation and use this knowledge in all their financial operations.

As speculators they endeavor to render the most urgent economic service needed at the time. They are quick to adjust their resources to the rapid changes in prices and markets that suffer from chronic maladjustments due to the ever-changing monetary scene. Thus they facilitate quicker and smoother readjustment and better allocation of economic resources to the most urgent needs of the public.

During rampant inflation one of the rules of good management is to contract as many productive debts as possible. The speculator borrows other people's money, which is repaid later with depreciated currency. Instead of keeping large bank deposits he finds it more advantageous to incur the highest possible debt with his

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bank. Of course, at all times he must maintain his liquidity to meet current obligations, always guarding against sudden calling of loans by his bank in moments of extreme credit stringency.

Inflation not only destroys income and wealth, but also redistributes them from millions of creditors to many debtors. Some businessmen, especially the young, aggressive entrepreneurs, understand this principle and utilize it to their advantage. They expand their enterprises or acquire new ones, merge with others or form new business structures – always building on debt. The inflation losses suffered by banks and bond holders who finance the expansion accrue as profits to these entrepreneurs who join the class of *nouveaux riches*. But occasionally when the government reverses its monetary policy, when it deflates rather than inflates or when it merely reduces the rate of monetary depreciation, these entrepreneurs may find themselves overextended. They may have to contract their operations, or liquidate some of their holdings. In fact, some may lose their fortunes even faster than they were made.

Chills and Fevers

Financial survival is especially difficult as the fevers of inflation are interspersed with the chills of recession. Some industries may be seized by the inflation fever while others may suffer recession symptoms. Rampant two-digit inflation does not follow the simple pattern of earlier moderate inflation, which tends to generate economic booms that are followed by periods of recession. Instead, it causes such serious disarrangement of markets and disruption of production that both economic disorders occur simultaneously.

The rapid depreciation of the money virtually destroys the capital market. The supply of loan funds tends to shrink as lenders are fearful of suffering losses from the depreciation of the money. Capital-intensive industries and others that depend on long-term financing, therefore lack the necessary capital for expansion, modernization, or merely maintenance of costly capital equipment. The strength and substance of such industries may deteriorate, their capital being gradually consumed. If, in addition, these industries are enmeshed in government rate setting and price fixing, they may wear out quickly, which becomes visible in the deterioration or even breakdown of service. Obviously, the equity markets of these industries tend to be depressed throughout the rampant inflation.

Also consumers goods indus-

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tries, in general, tend to contract throughout this period. After all, most consumers suffer losses of income and wealth and, therefore, are compelled to curtail the consumption of goods they deem least essential. Vacations may be postponed or at least shortened. Expenditures on entertainment, amusement, and other "luxuries" may be cut. There may even be reductions in the quality of essentials, such as food, clothing, and housing. And instead of seeking education in private institutions, the children may attend public schools, and state or community colleges.

The only industries that thrive on rampant inflation are the capital goods industries. They are producing the goods that permit business to hedge against the inflation through investments in new tools and equipment, or larger inventories of materials and supplies. As inflation reduces the real costs of labor, many businesses endeavor to accumulate capital in the form of durable assets, preferably those that are expected to appreciate in value while retaining some degree of marketability. Many companies use their own working capital or seek bank loans to increase their inventories or add to tools and equipment, which can be expected to rise faster in price than the interest costs on the capital invested. They sacrifice liquidity in the hope of higher profits from the expected rise in prices.

Boom and Bust

All these specific symptoms of rampant inflation tend to conceal the most important predicament that affects everyone: the boom and bust cycle that is generated by the inflation. When the monetary authorities first expand the money supply in order to finance Federal deficit spending or stimulate the economy they set into motion certain forces that seriously distort the allocation of productive resources. Specifically, the policy of easy money and credit temporarily reduces interest rates, which causes businessmen to invest more funds in new construction, machinery, equipment, and raw materials. It generates a feverish boom in the capital goods industries with rapidly rising prices of labor and resources. Now, this boom built on easy money and credit must come to an end as soon as the rising prices of labor and resources, which are business costs, erase profit margins or even inflict losses. After all, the boom must end as it was artificially built on paper and credit only. The recession that follows permits markets to return to normal, in particular, capital

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goods prices to decline, the industry to contract again, and the consumers goods industries, which were neglected throughout the boom, to come into their own again.

But this cycle can be extended in duration and be made more severe in its fluctuations through new injections of money and credit. Or merely the anticipation of new injections may cause businessmen to reduce their cash-holdings and escape into real goods. Thus, the boom may continue to rage even though the monetary authorities may cease temporarily to add new money and credit, because businessmen have come to expect an early resumption of monetary expansion. Once capital goods prices rise at two-digit rates, a temporary halt in the expansion process does not signal an end of the boom that continues to be fed by businessmen's reduction in cashholdings. Although interest rates may soar and the costs of financing equipment and inventory rise significantly, capital goods prices are rising even greater. It pays to order and buy now rather than wait until prices have risen again.

The expectation of an early resumption of easy money and credit that keeps the fires of boom burning is solidly based on a political assumption: that government will soon inflate again in order to alleviate some consequences of its earlier inflation. Alarmed about the recession that is engulfing the consumers' goods industries, it will want to stimulate once again these industries. When consumers are fast losing purchasing power during two-digit inflation, consumers' goods industries suffer symptoms of contraction and recession, especially unemployment of capital and labor. But by popular demand government is expected to cope with this recession with all means at its disposal. That is, it is expected to resume deficit spending and credit expansion in order to restore full employment. The economic boom thus burns on with new money and credit.

From Bad to Worse

In the ideological climate of today there can be no genuine reversal of monetary policy. The two-digit inflation must rage on, feeding an ever hotter boom of the capital goods industries and aggravating the recession in the consumers' goods industries. The purchasing power of the dollar must fall at ever faster rates, being depreciated by ever larger injections of money and credit and a growing expectation thereof. Two-digit inflation only comes to an end with the advent of three-

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digit inflation which signals the approaching demise of the paper currency. In the final convulsion of inflation fever, millions of housewives join businessmen in a panic rush to exchange their rapidly depreciating money for real goods. When millions of consumers hurry to spend their monetary assets and use all their lines of credit in order to seek refuge in real goods, the end of the currency comes in sight. Consumers' goods prices that were rising at much lower rates than those of producers' goods then will soar to catch up with the latter, or even surpass them, in the final contortion of the crack-up boom. In the dusk of the paper system that springs from political power and economic redistribution, the dreaded depression that was so long delayed in coming will finally make its entrance with irresistible force. Thus, once again, the inexorable laws of economics will prevail over political intrigue and power.

Indeed, affliction is a school of virtue that may correct levity and interrupt the confidence of sinning. But how long and how often must man be afflicted before he learns the lesson?

The Cost of Statism

BRIAN SUMMERS

FOR 6,000 YEARS of recorded history, men have lived under some form of statism. That is, mankind has never known a truly limited government—a government whose force is purely defensive in nature, protecting all from humanly initiated force and fraud, and doing nothing more. Thus, people have always experienced an aggressive component of governmental force, a component that takes from some and gives to others. This aggressive component, this *legal plunder*, has been at the

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expense of human beings. Let us examine the cost.

The cost of statism cannot be measured, for we have no way of knowing how life would have proceeded were it not for statist disruptions. Thus, there is no way of placing a dollar value on the consequences of government economic interventions, no way of measuring the suffering resulting from statism, and no way of accounting for the loss of life, for who knows how life and death would have proceeded in a free society?

Does this mean that we are stymied before we even start? Not at all. One examines the cost of statism by considering the nature of statism. And the nature of statism – legalized aggressive force by men against men – is perhaps best revealed by focusing one's attention on particular statist interventions. Let me suggest how such a survey might proceed.

Begin at Home

It is probably best to begin at home. There are millions of laws in America, so many, in fact, that no one can more than guess the number. How many of these are statist in nature? As many as are not specifically designed to protect people from humanly initiated coercive force and fraud.

Americans have laws that tax some and give to others, laws that prevent the hiring of nonunion workers, minimum wage laws that result in the unemployment of workers whose hourly productivity is less than the minimum wage, laws that prevent unlicensed barbers from cutting your hair, laws that restrict advertising and other forms of competition, antitrust laws that penalize efficient producers, laws that restrict imports, and on and on.

Not one of these laws protects people from coercion or fraud. Rather, every one of them is aggressive in nature, directed against taxpayers, nonunion workers, unskilled workers, efficient producers, and all their families. Who can measure the cost to these people?

And note that every one of these laws restricts and discourages production. With an eye on the simple truism that consumers cannot consume any more than producers produce, it is clear that these taxes and interventions victimize millions of consumers. But the cost does not stop here.

We must also consider the effect current taxes and interventions will have on the future. The quantity and quality of tomorrow's production, and thus tomorrow's standard of living, will be greatly dependent on today's capital investment. To the extent that current taxes, interventions, and the

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threat of taxes and interventions prevent and discourage this capital investment, our children will pay the price.

We should note well that this cost will not merely be in terms of material consumption. Tomorrow's leisure time, goods and services used during leisure, charitable contributions, and funding of medical care, medical research, education, science, and the arts will be greatly dependent on tomorrow's standard of living. And tomorrow's standard of living will be based on the tools of production we are building today.

A World-Wide Problem

Of course, statism is a world-wide phenomenon. One sees its destruction in every land. Consider the many wars of conquest. Who can measure the loss of capital? And, of far, far greater importance, who can account for the suffering? Who knows what contributions the unfortunate victims would have made had they only lived to see another day?

Or consider the cost of a controlled press. Of concentration camps. Of immigration and emigration laws. What is the cost of the Berlin Wall?

Statism is with us at this very moment. Men and women are paying the price. And their children and their children's children will also pay the price in terms of the destruction of capital, the destruction of liberty, and the destruction of people.

All this is not to say that the alternative to statism, a truly limited government, is without cost. However, the cost of government that protects people from humanly initiated coercion and fraud, and does not intervene otherwise, is measured primarily in terms of taxes that support these two legitimate functions. As an economy grows, as it always has when men have come anywhere near the ideal of limited government, these two functions consume a smaller and smaller percentage of productive output. That is, we would expect limited government to be supported, except in time of war, by a falling relative burden of taxation.

This, of course, is an ideal that may never be attained. However, in light of the tragic cost of statism, this ideal must be pursued for as long as people turn the forces of government against their fellow men.

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DAVID KELLEY

Justice in the Market

"WHY DOES a movie star earn more than a doctor? Why does a writer of thrillers earn more than a first-rate novelist?" These may be interesting questions of fact for the economist; but in politics they are rhetorical questions, popular expressions of a deep-seated feeling that our free market system is inherently unjust. It is assumed that a person's income should be proportional to the value of what he does, or to the ability or merit he exhibits in doing it. On this assumption, the income differences mentioned above are *inequitable:* the doctor and the novelist *deserve* more than the actress and the writer of thrillers. Since differences of this nature are supposed to be common in a free market system, the system as a whole is *unfair.* Capitalism is a den of inequity.

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In reply, many defenders of the market accept the indictment as true, but irrelevant. The moral basis of the market, they say, is not justice but freedom. Freedom is necessary to the pursuit of any good end, but it also allows the pursuit – occasionally successful – of bad ends as well. Justice, outside the sphere of legal justice, is the concern of individuals and groups in their private capacities. It cannot be enforced by the government; and it cannot be pursued by the government without the kind of controls that institutionalize much worse forms of injustice.

This reply is certainly valid, on both counts: freedom *is* the overriding and sufficient basis for the market; and injustice does sometimes occur within that system. But we do ourselves a disservice – and the market an injustice – if we allow the leftist charge to stand unchallenged. For morality is of a

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piece, and although justice is a subsidiary issue, it would be unfortunate if the most moral political system were the seat of flagrant injustice. Fortunately, this is not the case: critics of the market, falsely interpreting the requirements of justice, have greatly exaggerated the market's shortcomings. What we need, then, is an examination of the charges, and a juster appraisal of capitalism.

Government Intervention

To begin with, the government is responsible for a good deal of inequity visible in the economy today. Two policies are especially interesting, since they illustrate very clearly the unjust – as opposed to uneconomical – effects of government intervention. The first is the policy of licensing the professions. The implication of licensing is that the ability and integrity of every professional man are suspect, regardless of past record. The consequence of licensing is that every member of a profession is given the same sanction, regardless of individual differences. Thus consumers are given the illusion that they need not exercise their own judgment in choosing professional services. Anyone will do, because the government would not let any incompetent person practice, would it? The best stand to lose, because they cannot stand on their reputation; the worst gain a sanction, and an income, they would not otherwise receive.[1] This is unjust. The second policy is the labor law, which has a similar effect on wage-earners. Unions have the power to enforce uniform wage rates for certain types or work, regardless of variations in the skill and efficiency of individual workers; again rewarding the worst at the expense of the best.[2]

Another example of government-sponsored injustice is the teacher's salary, often presented as the greatest shame of the free market. For not only are teachers licensed by the government, but most of them work for the government in public schools. The consequences are manifold. Since public schools are tax-supported, most parents cannot afford private education for their children; public schools have a captive clientele, which they did not have to win by excellence. And since public schools are public, parents cannot exercise much control over the sort of

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1 Alan Greenspan, "The Assault on Integrity," in Ayn Rand *et. al., Capitalism: The Unknown Ideal* (New York: New American Library, 1967).

2 These policies create tendencies, not absolute effects. Good doctors still tend to receive higher incomes, despite licensing; some employers do pay more in order to get the best workers.

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teachers their children will have. Thus the government prevents the market from rewarding teachers in accordance with their abilities. There is no way of telling what the free market salaries of teachers would be – salaries in private schools tell us nothing, since they are distorted by the fact that private schools must compete with public – but presumably the salaries of good teachers would be bid up considerably by the tremendous value parents place on education for their children.

Income Differences

So far we have merely scratched the surface of the inequity caused by government. Anti-trust laws punish successful businessmen precisely for being successful[3]; minimum wage laws prevent less competent workers from receiving the more modest wages they might otherwise earn; the list is endless. But even in a completely free market, income differences of the sort usually complained of would still occur. Thrillers would continue to outsell difficult masterpieces; scientists would probably make less than popular singers; fashion designers would still cash in on popular whims. And the market would still be taxed with the charge of injustice.

The first step in analyzing income from a moral point of view is to set the terms of the analysis. For the terms of analysis proposed by the left are utterly fallacious. Justice is an attribute of judgments and actions concerning other people. If incomes are to be considered as just or unjust, therefore, they must be seen as the result of action. And if incomes are to be *compared,* on the grounds of justice, they must be the result of action by the same agent. This, of course, is how all collectivists do see the matter. In their view, society is a single entity, which engages in production as a unit, and which is then faced with a "social product" that must somehow be distributed. Now if this were the case, then perhaps it would be obligatory, or at least nice, for society through its agent the government to distribute in accordance with some criterion of merit. But this is not the case. This "tribal premise," as Ayn Rand calls it,[4] is false. The government is not the source of income; it is a sink much rather. Income arises from diverse sources, from countless individual actions and inter-

[3] Cf. Judge Learned Hand's opinion in the ALCOA case, quoted in A.D. Neale, *The Anti-Trust Laws of the U.S.* (Cambridge: Cambridge Univ. Press, 1968), p. 114.

[4] Ayn Rand, "What is Capitalism?" in *Capitalism: The Unknown Ideal.*

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actions. In order to apply any principle of justice to income, therefore, we must locate these actions; we must find the agents responsible for income.

How Income Is Earned

Now the primary agents of income are the people who receive it. With few exceptions, people do something for their money. The primary actions responsible for income are the actions of people producing, discovering, investing – in short, creating value. If this were all, there would be no question of justice. There would only be a question of cause and effect – What actions yield what return? – as if every individual were alone on a desert island. But in fact, most incomes arise in trade with other people, and at this point the concept of justice becomes applicable. For the critics of the market complain that people are not always paid in accordance with the value they create. The other side of the interaction, the consumer, distorts the situation by his irrational preferences. Very well: let us turn to the consumer.

Is it because of irrational consumer preference that a movie actress can make more than a doctor? I am a consumer, and I do not pay any actress, even my favorite, more than I pay my doctor; and if my income shrank, I would give up the former before the latter. I expect the same is true of most people. Is it because of irrational consumer preference that the manufacturer of hula-hoops made more than the publishers of most newspapers? I am a consumer, and I paid much less for my hula-hoop than I do for newspapers. I expect the same is true of most people. The point is that between different categories of goods, most people seem to allocate their incomes in a fairly rational way, reflecting a just appreciation of their relative importance. The reason that the actress and the hula-hoop king make so much money is that while no one pays very much for a movie or a plaything, many people want to see the same movies, or have the same playthings; whereas they prefer different doctors and newspapers. But that is no injustice. I as a consumer, proud of my preferences, am hardly in a position to say that others are irrational for wanting the same things that I want.

But another charge is often laid at the feet of the consumer. Within a single category of goods, it is said, consumers usually prefer the less valuable items, thus rewarding the purveyers of second- or third-rate goods more than the first-rate producers; and this is unjust. But these critics overlook

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a distinction, drawn by Ayn Rand,[5] between the philosophically objective and the socially objective value of a product. A first-rate novel, for example, will have a greater philosophically objective value – a greater intrinsic literary value – than a thriller. But this measure of value does not determine a product's return on the market; nor should it. Monetary return is a measure of value in exchange with other people, a measure of socially objective value. And the author of the masterpiece may have created something of *less* value in exchange than the writer of thrillers. Fewer people can derive value from the masterpiece, because the capacity of individuals to appreciate literature is limited. To them, within the context of their own interests and abilities, the thriller is of more actual value: at least, they can get *something* out of it. Hence it is not unjust on their part to choose the thriller over the novel; nor is there any inequity if the author of the former earns more money than the author of the latter. He has created more social value, as measured by the number of people *for whom* his work is of value.

The two principles illustrated by these examples show that consumer demand is not so irrational as the enemies of freedom would have us believe. People do, of course, pursue false values on occasion. That is true in any society, with any system of political economy. But the existence of such income disparities as are typically used to impugn the free market does not in itself show anything about the rationality or irrationality of consumer demand.

Even if the critics absolve consumers of the charge of injustice, however, many of them still feel that the *system* by which consumer preferences are transformed into the incomes of producers is unjust. Indeed, most critics speak as if there were no system, as if the market (a single entity) arbitrarily bestows riches on some and subsistence wages on others. They treat incomes as the result of pure, inexplicable chance, calling out for the government-enforced order they would like to introduce. But there *is* an order in the market.

The Source of Wages

Consider wages, the most common form of income. If consumer preference is the ultimate source of wages, the immediate source is the employer. And no employer determines the wages he will pay on the basis of whim. *He* does not determine wage levels at all – the market does. And the principles

[5] Ibid., pp. 24-7.

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by which the market sets these levels may tell us something about the justice of the situation.

Wages, like any other price, are determined on the free market by supply and demand. Now some would say that it is unjust for one person to earn more than another merely because there are fewer people who do his sort of work — i.e., because the supply of that sort of labor is more limited. But *who* is guilty of injustice here? Not the worker himself, so long as he is not coercively preventing others from competing with him. Not the employer, or the consumer: they would prefer a larger supply and lower wages. Nor is it plausible to accuse those most directly responsible for the short supply, the people who might have taken up that sort of work, but chose not to. They are under no obligation to even out disparities in the supply of labor. What a short supply and a high wage usually indicate is not any injustice, but the difficulty of the job: the degree of skill necessary for it, the amount of training and preparation it requires, the effort and initiative involved. These are rewarded on the market, and it is fitting that they are.

Nor is it unjust of an employer, when the supply of labor is *large*, to pay less than he would be willing to pay for a given job. Justice consists in acting toward others in accordance with one's judgment of their worth. This appraisal can be itemized: in acting to gain any specific value from others, one should act on the basis of one's judgment of them with respect to that value. Now people place different values on specific goods, including their own time and effort, because they act for different purposes, in different contexts. It is this fact which makes trade possible, and it also renders invalid any concept of a just price or wage, viewed as an absolute amount of money. Justice applies to the situation only in a relative way, and only from the standpoint of a particular actor in the market place. For a given employer, with specific needs for labor, the part of justice is to seek the best possible in the market as it exists. If the supply is such that he can get labor for less than he would be willing to pay, or for less than he would have had to pay at some other time or place, it is no injustice for him to do so. His relative priorities remain intact: he still trades with and for the best in other people.[6]

So much for supply. But what about the demand principle? Here

[6] Here again we are indebted to Ayn Rand's theory of objective value; cf. "What is Capitalism?"

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the market system tends toward an order that can only be described as striking; an order that goes beyond what is actually called for by any principle of justice. The employer's demand for labor is set by the marginal productivity of that labor. "The upper limit of [the enterpreneur's] bidding is determined by anticipation of the price he can obtain for the increment in salable goods he expects from the employment of the worker concerned."[7] The employer is willing to pay a worker the worth of what couldn't get done without him. Given the competition among employers to obtain labor, wages tend to rise to this level. Thus the worker tends to be paid the value (in exchange) of what he himself produces. This happens automatically – he need not pay any dues in order to get his due – and it happens only with the price mechanism of a free market.

Concerning Profits

In the case of the other major source of income, profits, there is nothing more to be said. For profits arise directly from consumer preference, which we have already discussed. There is no intermediary between consumers and those who receive profits, as there is between consumers and those who receive wages. The amount of profit which a given item will bring is not the result of anyone's intention. It is a natural fact, arising from differences between the price at which it will sell and the cost of producing it. The entrepreneur *predicts* that he will make a certain profit, but what he predicts is that the profit will be created by a certain natural process. It is no one's will, but the facts which determine profit. And it is invalid to say of a fact either that it is or that it is not just; only actions are just or unjust.

The market, then, contains much less injustice than many people, including some of its defenders, assume. We know that there is no such thing as a just wage – fixed in absolute terms – for any kind of work. Money is a *relative* measure of value. And we have seen that simple comparisons between the incomes of different people reveal nothing; to demand a correlation between income differences and differences in the intrinsic value of the product, or the effort or skill involved in producing it, is to assume a collectivist model of society. It ignores the fact that income is determined by the actions of individual people, not by Society. And in examining the general features of economic interaction among people, we have

[7] Ludwig von Mises, *Human Action* (Chicago: Henry Regnery Co., 1949), p. 594.

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found very few *loci* of inequity in the market. On the contrary – we have found that the market tends much more toward justice.

On a closer look, moreover, it does not seem that the leftist critics of the market really do have justice as their object. In his book *Inequality*, Christopher Jencks gives a wealth of statistical evidence that incomes are determined more by individual initiative and competence than by any advantage deriving from one's family background. But instead of concluding that we live in a society that is just as well as free, he goes on to advocate – in the name of equality – a program that is as unjust as it is coercive. In order to obtain equality, he says,

> we would have to devise "insurance" systems . . . which break the link between vocational success and income.
>
> [Income and status differences] could only be prevented if we abandoned the notion that an individual's wages and working conditions should depend solely on his value to the employer.[8]

We know that equality can only be pursued by coercion, that equality is incompatible with freedom. We see here, in Jencks's desire to break the link between the values a man has to offer and his income, that it is also incompatible with justice. We need not fear, then, that a concern for justice will lead us away from freedom and the free market. Freedom and justice stand together, jointly opposed to collectivism.

8 Christopher Jencks *et. al.*, *Inequality* (New York: Harper and Row, 1973), pp. 9. 197

IDEAS ON LIBERTY

The Wisdom of the Market

PERHAPS THE HEART of the capitalist system is allocating capital for future needs not through a centralized bureaucracy such as Gosplan, but in a decentralized marketplace. If there are enough decision-makers, the vagaries of judment wash out and the facts prevail. The capitalist system works precisely because the marketplace is smarter than the best possible bureaucracy.

Editorial from *The Wall Street Journal* October 1, 1974

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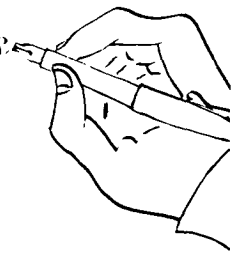
The Continuing Efforts to Destroy Property Rights



BERNARD H. SIEGAN

THE CONTROVERSY continues on what I would have thought was a long settled and filed issue in American life, that private property should not be taken for public use without just compensation.

These are the exact words of the "taking clause" of the Fifth Amendment to the U.S. Constitution. It is under considerable fire. This clause is part of the Bill of Rights and like other provisions of that document, it bulwarks the rights of the individual against the excesses and abuses of the State.

However, individual rights are most discomforting to those who believe that politicians and office holders know or can be made to know what is best. It is hard to imagine that such a notion can still exist in view of what is daily reported on TV and in the newspapers. But, regrettably, that position is much alive and well.

The taking clause presents serious problems for those who want land used only for certain special purposes and think they can accomplish that objective through government action. For example, it would cost enormous amounts to purchase the waterfronts and mountainous areas, canyons, and other lands that the environmentalists consider "ecologically sensitive."

Were the taking clause not in the way, government could completely control the use of those properties for the purposes intended and not have to compensate

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the owners. Development could be prohibited and the land kept in its natural state. Some think the public would be saved a lot of money.

Thanks, but no thanks. It could be the most costly process ever undertaken by government. For the prime casualty would be the country's private property system. If that floundered, who would build the houses and the commercial and industrial developments, and at what or whose expense?

Far fewer people would invest in land, confronted with the possibility that the government could take it away. Or if they did, they would demand a higher rate of return given the added risk of that occurring. For both reasons, there would be far less real estate to provide for the basic needs of people, and the cost would rise significantly. Employment and commerce would suffer.

There is also the equally great cost to our society when harm befalls our system of property rights. The taking clause, despite its erosion through the years, is still a guarantee against losing one's land or home.

It is tempting to believe that the Federal and local governments would use their power justly and with restraint and perhaps solely against the "big interests." But in the absence of the taking clause, the government's good faith would have to be relied on – and that is exactly why we have a Bill of Rights. History shows governmental restraint bears up very poorly against political pressures.

Moreover, the "big interests" are always in a better position to fight against or work with government than ordinary citizens. The right to take or not to take away property would be another one of those powers politicians could sell for money, votes, or labor and services.

The threat to the taking clause is not an idle one. Already two books have been published by highly influential sources arguing in essence that the clause should not be interpreted to mean or does not really mean what it clearly says. One book was sponsored by the affluent Rockefeller Brothers Fund and the other by the President's Council on Environmental Quality. The latter has cost the taxpayers over $65,000 – quite a sum, considering that its contents would be used against their interests.

There are thousands of small landholders and farmers in this country. They are entitled to all the protection they can get against the misdeeds of government. Their interests, among others, require strengthening and not destroying the taking clause.

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Significance of Services
— *Hiring and Firing*

W. A. PATON

THERE HAVE LONG BEEN widespread delusions and misunderstandings about personal services in relation to the market place, and the resulting interferences with employment procedure and the price-making process have had unfortunate consequences with respect to economic productivity and progress. The impact of the roadblocks to a free, competitive market for services, moreover, has been especially damaging to the welfare of the host of workers providing the lower levels of marketable skills – the very people that the interfering programs have often been set up to benefit.

Kinds of Personal Services

In commenting on this area of sloppy thinking and the accompanying harmful policies and practices I'll first call attention to the persistent tendency to define personal services too narrowly. In a very primitive economy there may be a bit of justification for conceiving of "labor" in manual, physical terms – muscle applied directly to the necessary tasks with the aid of simple hand tools. But this conception is without merit in the highly-specialized, technologically-complex economic system in which we are now living and enjoying an amazing array of consumer products. Today muscles take a back seat for machines, and physical effort in production consists in large measure of operating power tools, such as driving a tractor on the farm, performing some chore on a factory assembly line, or tapping the keys of a computer in the office.

Further, to be realistic we must recognize that personal services required in our intricate exchange economy include a great variety of activities and functions – and the list is almost endless. In other words, there are many, many kinds

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of "workers" in the modern vineyard. In manufacturing, the extractive industries, transportation, power production, construction, communication, and other major lines we have researchers, designers, executives, salesmen, stenographers and so on as well as a variety of grades and groups of workers in factories and other operating facilities. Modern business, overall, requires the services of such people as bankers, brokers, insurers. In the professions, broadly defined, we find doctors, dentists, lawyers, accountants, teachers, writers, entertainers, and many other service groups, all functioning in the process of furnishing economic "goods" to the ultimate consumer. Every family, too, has contacts with painters, plumbers, electricians, retail store staffs, car repair men, barbers, and many other familiar service providers. In mentioning these examples of some main fields and specific occupations I'm simply trying to stress the point that a very broad range of personal services is associated with the present-day production pipeline at all stages.

Restricting the use of the terms "labor" and "worker" to certain callings and trades is especially objectionable in that it fosters the view that these activities have a preferential position on the productivity scale. Thus popular opinion continues to regard farmers, miners, bricklayers, and union members generally, as bona-fide "producers", with those engaged in managerial and other "non-labor" roles relegated – in varying degree – to the status of parasitic poachers on output. That we do suffer from parasitism is not to be denied. Soldiering, featherbedding, sabotage, fraud, coercion, and other destructive and unproductive practices are a commonplace these days. But the loafers, vandals, and crooks are not confined to any one class or group. The office staff, and the top brass for that matter, may be as hard-working, as honest, and as truly productive, as the men out in the shop.[1]

I don't find it difficult to include in economic "services" the contributions of those who make the basic decisions as to utilization of available resources and thus direct the course of production, acting as agents, so to speak, of the impersonal mechanism of the market. And there is some justification for regarding the function of savers and investors, who provide the capital and assume the risks, as a type of "service" – and one that is crucial to the existence of

[1] See my "What PRODUCTION Means," *Michigan Business Review*, March 1973.

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private enterprise and a free economy.

Relation of Services to Commodities and Physical Facilities

In viewing the market structure many tend to regard commodity pricing as entirely separate and distinct from personal-service pricing. This is unreasonable. This view, for one thing, overlooks the fact that from a cost standpoint a physical commodity on any market level, including the final stage of transfer to the consumer, is largely a bundle of service prices. The latent raw materials of our planet, including oceans and atmosphere, prior to discovery, development, conversion into useful forms, and transfer from one location to another, generally have little or no market value. In short, the process of commodity production consists essentially of the application of personal services of many kinds to the natural resources, raw materials, intermediate products, and commodities capable of satisfying consumer needs. And the end economic "good", as has been pointed out by economists from time to time, is *use*, not molecular content.

Our manufacturing plants with their equipment, and all other productive facilities, may also be conceived as bundles of the many kinds of services required in preparing and putting together the materials required in fabrication and construction. And the services utilized must include the efforts of planners, architects, and other special skills, as well as the work of those operating the electric saws or handling excavating machines, cranes, and so on.

I don't want to seem to be supporting the view that the market value of a specific commodity or facility is determined by a summation of service costs. In a free competitive market no producer is assured, continuously, that the price of his output will equal – or exceed – the costs he incurs. Moreover, costs will vary among suppliers during a particular period, although in a good market the price to all buyers for identical goods (taking into account all the attaching conditions) will tend to be the same. But the old socialist description of physical product as "congealed labor" does have a bit of merit, when broadly interpreted, in suggesting the importance of services in the overall process of production.

It should also be noted here that the so-called "service industries" are closely related to physical products and facilities, at various stages. For example, we like a comfortable seat in a building with good acoustic properties while enjoying the singing of the

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prima donna at the opera. We also recognize that a piano is needed for the accompanist, and that both performers require suitable garb for the occasion.

Services and the Market

It follows that the market for services is an integral part of the overall market mechanism, not a structure separate and distinct from the markets for commodities and physical facilities — in a sense consisting largely of embodied services. It also follows that harassment of the buyers and sellers of services as such, the imposition of a complex of restraints and controls, legalized or otherwise, strikes at the very heart of the market as a means of channeling productive factors and awarding output to participants. Efficient utilization of available resources, it is generally agreed, is the key to maximizing the flow of consumer products. And how can this be accomplished if decision-making is taken away from the users and providers of services?

It is true that a nation's endowment of natural resources is not a negligible factor, but the attitudes and abilities of the people have often proved to be of primary importance. As has been pointed out by economic historians, the destruction of physical property — buildings, equipment, roads, and so on — in a devastating war may soon be remedied by even a defeated country if the population is energetic, capable, hardworking, and assuming that needed raw materials can be imported. Present-day Japan is an outstanding example.

From certain quarters we hear the familiar cry to the effect that "people shouldn't be bought and sold like sacks of potatoes". In the absence of some form of slavery, of course, the human being is not a marketable chattel. But personal services are most assuredly bought and sold every day, and the prevailing price — in the absence of interference by private or government agencies, and the impact of general misunderstanding and mistaken views — will be the result of impinging demand and supply influences. The pricing of services in a free, competitive market, conforms closely to the basic pattern of the pricing of commodities.

The idea that the buyer of personal services will exploit the service-furnisher, the worker, unless he is pressured by legislation or other means into paying what the service is worth, on the basis of economic productivity, is persistent and widely accepted. On the basis of long study and observation, and a dozen years in an administrative capacity in business operation, I find this view largely

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unfounded, at least on the American scene. Competition for services tends to be just as keen as the bidding for the available supply of raw materials and other commodities. If an employer is paying only $4.00 an hour for a certain type of service when the current value in the market area is $5.00 per hour, he will either be obliged to adjust his scale promptly or lose needed workers.

It is true that the market for services, in the short-run, tends to be somewhat less flexible and sensitive than the market for materials, even in the absence of interferences by government agencies or others. To shift the flow of services from one region to another of course requires suppliers of services to move, and such movement may be resisted, especially where families and older persons are involved. But in this country this influence has become minimal, with the availability of the automobile and other means of transportation and the erosion of sectional loyalties and prejudices resulting from increasing familiarity with country-wide climate and other conditions.

As already implied, the interfering pressures bearing on the labor market are generally directed at the employer. He's the accepted villain in the play. But it shouldn't be forgotten that if the employer is coerced by non-market forces this inevitably means that employees are also being affected. Dictated employer decisions are bound to have an impact on employee actions and welfare. And the overall result is hamstringing the market as a guide to economic conduct.

Tenure

I want to add to the above comments some observations on the burgeoning restrictions on the rights of employers to select and dismiss employees, and the accompanying limitations on worker rights in seeking employment and holding jobs. I'll begin by referring to the development of tenure for the "civil service", starting long ago with legislation at the Federal level, and which has since been widely copied, in its main features, by state and local governments. The general objective of the various enactments and regulations, at least at the outset, was to do away with the "spoils system", under which appointments were made – so the story goes – largely on the basis of political party affiliation, regardless of ability and character. In contrast the framework of commission control that has emerged is often described as the "merit system".

On balance, in my opinion, the substitution of commission authority for the judgments of heads of

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departments and other administrators, including elected officials, has not worked out at all well. The selection process tends to be cumbersome and time-consuming, and influenced by all sorts of factors that have nothing to do with ability to perform (for example, preference granted to those who have served in the military forces). More serious is the virtual impossibility of discharging any individual who has secured a civil-service appointment, regardless of level of capacity and accomplishment. Once an appointee has come under the prevailing blanket of tenure he is almost entirely free from the risk of dismissal.

As a member of a university teaching staff for 45 years I can speak with more authority on the impact of tenure in that field. Long and close observation has convinced me that freedom from risk of dismissal for the teachers, following a brief probationary period, tends in many cases to chill incentive to improve, blunt any latent desire to work harder and more effectively. Unions for the teaching staff are now being advocated and formed on many college campuses — a sorry picture for people aspiring to professional stature. Moreover, it has become difficult to enforce adherence to the period of service required before tenure becomes effective.

A feeling of some degree of security in one's job or position, needless to say, is not something to be deplored. A continuing fear of summary discharge is not conducive to good employee morale. But tenure should be earned, and maintained, by performance, not by rules and pressures that take the matter out of the employer's hands.

Some Union Policies and Practices

The current stress on seniority, a major feature of union policy, is a serious obstacle to sound employment practice with respect to promotion and retention. Other things being equal the duration of a person's experience might well be a decisive factor. But other things aren't equal. People vary widely in native ability, attitude, integrity, and so on; health and age are important factors. Efficient utilization of personal services, the key to productivity and volume of output, simply can't be achieved in any field if period of service becomes the sole basis for advancement and freedom from loss of job.

Compelling the individual worker to become a union member as a condition of employment is another highly objectionable policy, and one — unfortunately — which has acquired considerable legal sanction. This surely limits the work-

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er's right to choose, and discourages labor mobility, so essential to a good market for services. Moreover, the typical union member today has virtually lost his right to bargain as a supplier of service. He is one of a large group, under the thumb of well-financed union management – officers, shop stewards, and other staff groups. He can vote on occasion, it's true, but he'd better vote right.

To suggest that threat of violence is a feature of current union practice is generally taboo, but that this factor is present and important is obvious to anyone willing to look at the record. Indeed, if all fear of danger to himself and family could be lifted from the individual member the harmful power of our unions would largely disappear.

The overall impact of union policies and practices has not been beneficial to those who have personal services to sell, including their own members. Union support of statutory minimum wage rates has helped to fasten this incubus on us, and the impact has been especially severe on those workers in the lower ranks from the standpoint of abilities, and has thus contributed mightily to unemployment.

Another aspect of union wage rate policies, often overlooked, is the restricting of increases for the especially talented and skillful. Observant personnel managers will admit, privately, that they would be glad to pay more than the top union scale to their best people, if this were practicable. Without much doubt there is a tendency in a leveling direction resulting from union tactics and demands, although possibly unintentional.

Perphaps the most absurd of all the many misleading phrases we are plagued by these days is "free collective bargaining". The word "free" should certainly be deleted.

Enforced Catering to Minorities

Federal, state, and local governmental agencies, with help from many nongovernmental organizations and a host of do-gooders, have created a climate of irrationality with respect to the hiring of our racial "minorities", so-called. Beginning with a relatively mild pressuring of employers to give fair treatment to Negro and minor minority group applicants the tide has risen to the point where such applicants are being pushed to the top of the list, regardless of qualifications. The development has taken on the character of a social obsession, with an unwillingness to permit any critical examination or discussion. In recent years the problem of female rights has been thrown into the hopper, although the women can hardly be

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regarded as a minority group. There is now quite a clamor for equality of the sexes with respect to job applications, in practically all fields, and "equal pay" for "equal work".

Anxiety as to the welfare of the underdog is not altogether unwholesome, and no right-thinking male nowadays wants to see the ladies cast in the role of second-class citizens. The record of mankind on this score is rather miserable, and women still are treated badly in many parts of the world. But the fact remains that the sexes are not the same in important respects and that it is not unreasonable to take these differences into account in employment practices. If an accounting firm, for example, has had a number of experiences in which a smart young woman, with a keen interest in the field, has decided to marry and resign just about the time she was becoming an effective auditor you can hardly blame the organization for giving a promising male applicant the edge when recruiting from the ranks of college graduates.

But it seems clear to me that the degree of coercion to which employers are now subjected in their hiring practices is highly objectionable and a barrier to efficient utilization of our personal-service resources. By and large the employer should have the right to select staff according to his views of his needs. Outside agencies, governmental or otherwise, simply can't be expected to take over the hiring function directly, and to swathe the employer in such a network of rules as to cripple his right to select employees is bound to result in loss of operating efficiency.

If the management of a restaurant decides to employ only women to serve their customers why shouldn't they be permitted to do so? If a trucking company prefers men as drivers why should it be compelled to take on a female contingent? If it is traditional to employ males with some African blood as porters on railway sleeping cars why should the management be required to hire a quota of males of Caucasion extraction, or attempt to recruit women? If a clothing store considers tailors from abroad more efficient than those trained in this country (assuming there are such) it surely doesn't make sense to coerce the business into changing its hiring policy. Indeed, if an employer — in a special situation — prefers employees with a Scotch accent that's his business, not that of any governmental or private body trying to force its pet views on the enterprise.

It should be kept in mind that

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in a free market economy it's the customer who calls the tune, and employers who don't listen and conform aren't likely to stay in business very long. The employer who caters to any personal prejudices he may have as to hiring practice that conflict sharply with customer attitudes will soon hear from his patrons. The market mechanism is a great disciplinarian, if permitted to function as such.

In short, I believe it would be a blessing if the government, at all levels, would abandon the attempt – now in full swing – to interfere with employer rights to pick their employees. And this doesn't mean that I am protesting the basic role of government as an agency to protect us from violence, fraud, and other criminal actions, or that I wish to exempt employers from the police power.

Summary

I'll summarize, briefly. In the present-day economic process a wide range of kinds of personal services is required, and no type of service essential to providing the great array of consumer "goods" found on the modern market has a preferential position on the productivity scale. Services permeate the economic pipeline at all stages, and in a sense commodities and physical facilities are bundles of applied services. Thus the process of production consists essentially in discovering, converting, transporting, and using the basic physical ingredients available, plus providing desired services as such directly to the ultimate consumer. It follows that services are an integral part of the overall market structure and that interference with the buyers and sellers of services, by governmental or other agencies, constitutes a crucial assault on the market mechanism in its role as a guide to efficient utilization of resources.

Today's mounting wave of interference with the right of employers to select and discharge employees has taken many forms. Employee tenure, now highly developed in government service, has become firmly established in teaching and is a factor in other fields. Today the employer who fires an employee does so at his peril, whatever the cause, and the overall result of undue job security is impairment of the incentive to do well on the part of the employee and thwarting of employer efforts to spur efficiency in production. Some dominant union policies are clearly roadblocks to good staff management. Stress on seniority interferes with both the retention and advancement of employees on the basis of ability and

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performance. Forcing union membership as a requirement in obtaining and holding a job is an unjustified interference with both employee and employer freedom of choice, and legal sanction of this practice is truly an outrage. Individual initiative among the rank and file of union members is largely lost, and there is often a very real danger of persecution and violence where a member has the audacity to oppose the policies and decisions of the officers and their minions. Thus union membership often has a tendency to discourage the more talented and energetic, and union wage scales demanded often fail to do justice to the most able workers. At the same time union leaders generally support minimum-wage legislation, demonstrably an obstacle to the employment of workers at the bottom of the totem pole of productive capability.

The current and expanding pressure on employers to cater to minorities and women in hiring is certainly having an adverse effect on both the quantity and quality of services available to the market and also on the efficiency of the productive process and the volume of output.

— Reprints of this article available, 10 cents each. —

IDEAS ON LIBERTY

What Is Seen and What Is Not Seen

HAVE YOU ever heard anyone say: "Taxes are the best investment; they are a life-giving dew. See how many families they keep alive, and follow in imagination their indirect effects on industry; they are infinite, as extensive as life itself."

The advantages that government officials enjoy in drawing their salaries are *what is seen.* The benefits that result for their suppliers are also *what is seen.* They are right under your nose.

But the disadvantage that the taxpayers try to free themselves from is *what is not seen,* and the distress that results from it for the merchants who supply them is *something further that is not seen,* although it should stand out plainly enough to be seen intellectually.

When a government official spends on his own behalf one hundred sous more, this implies that a taxpayer spends on his own behalf one hundred sous the less. But the spending of the government official *is seen,* because it is done; while that of the taxpayer *is not seen,* because — alas! — he is prevented from doing it.

FREDERIC BASTIAT, *Selected Essays on Political Economy*

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The Virginia Experiment

WITH the two hundredth anniversary of the American Republic coming up, the publication of Alf J. Mapp, Jr.'s seventeen-year-old *The Virginia Experiment* (Open Court, $5.95) in an expanded paperback edition will have its purely ceremonial uses. Its theme is "the Old Dominion's Role in the Making of America: 1601-1781." But this reminder that the road from the settlement of Jamestown to Cornwallis's capitulation at Yorktown took 174 years (practically a half of our existence as a people on the North American continent) is not a ceremonial volume. What it tells us is that our problems hardly change at all from generation to generation.

Nor do the tried-and-true answers to the problems change. Britishers came to Virginia in the early Seventeenth Century as heirs to a tradition summed up as "the rights of Englishmen." They had behind them Magna Carta and the Common Law. They were also quickly caught up in the struggle to put a check on the power of any centralized and distant government to tax its citizens without representation. True enough, the early Virginians were not followers of Oliver Cromwell. Unlike New England Puritans, they did not approve of regicides. But quite early they were pushed into becoming supporters of self-rule. Whether it was a Stuart or a Hanoverian court, or the inconsistent Cromwellian Protectorate itself, that tried to levy taxes by ukase, Virginians objected.

When parliamentary commissioners notified the people of Northampton County at the time of the Navigation Acts that they would be subject to a tax of forty-six pounds of tobacco per poll, a

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committee of Virginians argued that the law that "requireth and enjoineth taxations from us" was "arbitrary and illegal, forasmuch as we had neither summons for election of Burgesses nor voice in their Assembly . . ." This statement, in the very middle of the Seventeenth Century, was the first formal American enunciation of the doctrine that taxation without representation is unjust.

How did a group of planters, men of culture and aristocratic leanings, become leaders of a movement that was ultimately to culminate in the rebellion against King George III? Partly it was the way of life that they led, and partly it was the economic victimization of all English colonials everywhere by a mercantilist philosophy that favored the home country. The big planters who dominated the first Burgesses were, many of them, younger sons. They sent their own sons back to England to be educated. They liked ceremony in their capital of Williamsburg. They enjoyed a social life that often welcomed the participation of the Royal Governor. They could have been King's Men forever if it hadn't been for the distance from London and the difficulties of trying to live by one-crop cultivation in an age which insisted that tobacco, the "money" of the Virginia colonists, must be channelled to English ports before it could go to the European continent.

The Habit of Self-Rule

A William Byrd II or a "King" Carter was virtually a government unto himself on his broad tidewater acres. This developed the habit of command. To the West, in hilly country, the smaller planter and the artisan and the iron miner from Prussia had to face the Indian, which was enough in itself to develop wariness and hardihood. So, when the struggle between England and France for the Eighteenth Century version of world domination waxed hot, it was natural for Virginians such as young George Washington to take charge of the local response to the conflict. The Virginians, who had been pushing out into the Ohio Country, were in the middle position in the colonies. They were defenders of what might be called the "salient." So they gladly accepted the main burden of fighting what was variously known as the Seven Years War, the French and Indian War and – intoned with local pride – "Virginia's War."

But what did they get out of it? After the fighting was over, stupid men in London tried to put the Ohio Country out of bounds for land-hungry Virginian sol-

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diers. The Stamp Act, a notorious example of taxation without representation, was worse. The tax on tea was not particularly onerous, since coffee houses were the local rage, but other taxes on goods which agricultural Virginians did not produce were like a red flag.

The forensic education of Virginians, who were used to good libraries, was a factor in the rising tide of rebellion. So, too, was the fact that a red-headed youngster such as Thomas Jefferson had had the opportunity, under such teachers as George Wythe, to study the history and philosophy of government. Even a hill country lawyer such as Patrick Henry could bring the names of Brutus and Cromwell into inflammatory speeches warning King George not to go too far. Naturally, when the Bostonians revolted against the East India Company's mercantilist grip on the tea trade, the Virginians responded sympathetically.

Today's Application

And the modern application of Mr. Mapp's book? For tea, read oil. For the Eighteenth Century's "right of vicinage," read anti-busing. For the non-importation association formed by the Virginians in 1769, read Henry Kissinger's attempt to organize the oil consuming countries to counter the Arab-Iranian-Venezuelan oil cartel. The circumstances differ, the fundamentals remain more or less identical.

The big lesson of *The Virginia Experiment* for a bicentennial year is "beware of the politicians." Jefferson, with his philosophy of limited government, said it all even before the "Virginia experiment" had merged with the creation of President Washington's American nation.

The Eighteenth Century Virginians, along with such citizens of Massachusetts as John Adams, believed in a four-fold foundation of the rights of the colonials. Their rights depended (1) on nature, (2) on the British constitution, (3) on charters and (4) on immemorial usage (the Common Law). Some of the middle Atlantic colonies differed with the Virginians and the Puritans. The leader of the Pennsylvanians, Joseph Galloway, disagreed with Richard Henry Lee of Virginia on the subject of the "law of nature," from which the doctrine of natural rights derives. Galloway would have set up a Grand Council of the colonies whose acts would be subject to the veto of a President-General appointed by the King and holding office at royal pleasure. Together, the Council and the President-General would

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constitute an "inferior" branch of the British parliament.

But this would have substituted Divine Right, in the person of the King's appointee, for the natural right of the colonists to make their own laws. It would also mean that the King might treat Americans as something less than free-born Englishmen.

Galloway's plan was rejected. The theory of natural rights, as espoused by Richard Henry Lee and Thomas Jefferson, became the undergirding of America's independence. Will we desert this theory in our 200th year? Not if the spirit of Virginia prevails.

▸ ECONOMICS AND MARX: THE FRAUDULENT ANTAGONISTS by Howard Brandenburg (The Hillsdale Press, San Mateo, California, 1974), 277 pp. $10.00. This book also is available from the Foundation for Economic Education.

Reviewed by Bettina Bien Greaves

WHAT CAN a former corporation lawyer, special assistant U. S. attorney and retired navy captain possibly know about economics? A great deal, if his name is Howard Brandenburg and if one judges from his recent book, *Economics and Marx: The Fraudulent Antagonists*.

Mr. Brandenburg's formal schooling was in law. He studied economics on his own, so did not waste time, money and energy having to learn, and then unlearn, macro-economic statistics and mathematical formulae which now pass for economics in most college classrooms. Mr. Brandenburg has obviously read widely and well. He understands the major contributions of the sound economists and can spot an economic fallacy at long range. His major whipping boys in this book are Karl Marx and all who wittingly or unwittingly follow in his ideological footsteps.

The author realizes that it is not enough simply to attack Marx's conclusions. Marx's foundations, his reasoning, his logic, his "epistemology" must be demolished. And this Mr. Brandenburg proceeds to do forthwith. He starts by explaining that economic theories and laws are all derived, as Mises puts it, "from those principles with which every newborn babe comes potentially equipped." Only on the basis of such irrefutable a priori propositions may a logically consistent science of economics be constructed.

The longest chapter in the book attacks the idea that economics is "empirical," i.e., based on observation of historical data and statistical aggregates. In refuting this position, Mr. Brandenburg

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shows that economics is a very different kind of science. It deals with units which cannot be quantified, measured, totaled, multiplied or divided with any meaningful results – the conscious actions and subjective values of individuals. Because individuals do not act mechanically, the laws of statistical probability are suspect. "People throw dice," he writes, "*but people are not dice.*" The author comes down hard on persons who try to base economic theories on "what everybody knows," when they should build on "what everybody is." He dismisses "thin-air statistics," saying that "if it is dishonest to get something *for* nothing, isn't it *slightly* dishonest to get something *out of* nothing?"

The next longest chapter in the book goes after Karl Marx, the labor theory of value and the doctrine of worker exploitation. The author again reasons from basic a priori and marginal utility theory, arriving at the subjective value theory, thus thoroughly refuting and demolishing the Marxian labor theory.

Mr. Brandenburg quotes widely from the works of empiricists, historicists, socialists and Marxists. He often succeeds in turning their own quotations against the very theories they espouse. One of the most outspoken Marxists, Oskar Lange, is quoted as having rejected the Marxian theory of labor and turned of necessity to marginal analysis to explain the determination of prices. The author also cites the work of many leading spokesmen for the free market, marginal utility, subjective theory of value.

When all is said and done, the reader is led to several important conclusions. The socialists have claimed to be empirical and scientific, but they are not! They have argued that they can forecast, but they can't! They have asserted that workers are exploited, but they aren't! For years they held that nationalizations were necessary to socialize an economy, only to be forced to abandon that integral plank in their platform. All their pet doctrines break down for, as Mr. Brandenburg explains, all of us – capitalists and socialists alike – are forced to conform with the laws of human action and the principles of economics. People must act in accord with their subjective values and calculate on the basis of the marginal utility theory to determine market prices. If they don't they cannot function at all and their whole economic system must break down. Sooner or later the socialists must also recognize that they cannot calculate unless consumers in their society are free to purchase or not to purchase as they wish and entre-

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preneurs are free to do their best to try to satisfy the demands of those free consumers.

Mr. Brandenburg has contributed to the understanding of Marxian fallacies and to the fact that a communist society cannot calculate and plan economic production rationally. En route to unstanding Marxian fallacies, readers of his book should come to recognize also that modern empirical "economists" base their elaborate statistical models on similar fallacies.

Mr. Brandenburg's many quotations are well chosen and pertinent and his comments sound and helpful. His book is not light reading but its message is worthy of attention by serious students of economic theory and especially those interested in the claims that economic calculation can exist under socialism.

▸ THE INCREDIBLE BREAD MACHINE by various authors. (World Research, Inc., Campus Studies Institute Division, 11722 Sorrento Valley Road, San Diego, California 92121, 1974) 192 pp. $4.95 clothbound, $1.25 paperbound.

Reviewed by Brian Summers

THE CAMPUS STUDIES INSTITUTE has, for several years, supplied college students with superbly written pamphlets on free market economics. Now six members of its student staff (Susan Love Brown, Karl Keating, David Mellinger, Patrea Post, Stuart Smith and Catriona Tudor) have extensively revised and updated R. W. Grant's *The Incredible Bread Machine.*

The results are exciting. It is exciting that these young people understand and write so well about economics. And it is exciting to contemplate the effects this book could have on high school and college campuses.

Social security, antitrust, union monopoly privileges, minimum wages, farm programs, civil rights, the business cycle: these are just a sample of the items covered. Of necessity in a work of this length, the coverage of each topic is brief, although often amazingly compact. Few words are wasted. For those readers whose interests are whetted, and I expect there will be many, more than 150 references have been provided.

This book is firmly on the side of the free market. "What if government could only use its power *defensively* to protect the life, liberty and property of its citizens against the initiation of force and fraud from others?" This is the ideal. At no point is this ideal compromised.

The Incredible Bread Machine is one of the finest introductions to

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political economy I have seen. Its catchy style made it difficult for me to put down. If enough people pick it up, and live by its message, the winds of change may once again turn toward liberty.

▸ WILL THE REAL YOUNG AMERICA PLEASE STAND UP? by Mark Evans (Stackpole Books, Cameron and Kelker Streets, Harrisburg, Pa. 17105, 1973) 218 pp. $6.95.

Reviewed by Edmund A. Opitz

NOT EVERYONE takes pleasure in discussing a controversial issue on its merits; the line of least resistance for many is to blunt the edge of an adversary's argument by suggesting that his position reflects self-interest of some sort. Thus the marxist asserts that only the proletariat can understand communism; the Freudian fends off objections by alleging that critics are motivated by unconscious impulses; speculation as to why a person embraces a philosophy comes to seem more important than the philosophy itself. And by the same token the young are positive that the old are incapable of grasping the true inwardness of youth simply because they are over thirty. The generation gap is no new thing, of course, but today's gap is somewhat wider than hitherto. It should be added that there are wide gaps visible among the 20-21 year olds themselves, especially between those who work and those in college. Nevertheless, there is a feeling of strain between young Americans and old; they talk past each other, much of the time. What's a middle-aged person to make of hard rock, the sex and drug scene, the outlandish getups, the vagabondage? If he tries to get with it he only looks silly to young and old alike. All healing comes from within.

It's right here that the Mark Evans book is important. Evans is in his mid-twenties, but he already has his Ph.D. from one of the tough graduate schools; he's a musician and writer. And he tackles the problems faced by his peers, people under thirty, in terms familiar to them, and from the inside. Communicating with the young as no outsider can, he dissects rock music, analyses the debasement of standards, comes down hard on drugs and violence. On the positive side he offers a restoration of sound values and says some excellent things about the basic institutions of every civilization: home, school and church. This is a sane and healthy book.

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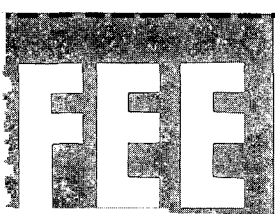

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